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CONTROLS OVER THE INTEGRATED  
ACCOUNTS PAYABLE SYSTEM

Report No. D-2000-139

June 5, 2000

Office of the Inspector General  
Department of Defense

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### **Acronyms**

ANG	Air National Guard
CAGE	Contractor Activity Government Entity
CCR	Central Contractor Registry
CEFT	Contractor Electronic Funds Transfer
DFAS	Defense Finance and Accounting Service
DUNS	Data Universal Numbering System
EFT	Electronic Funds Transfer
FAR	Federal Acquisition Regulation
FSO	Financial Services Office
GAO	General Accounting Office
IAPS	Integrated Accounts Payable System
MORD	Miscellaneous Obligation and Reimbursement Document
OMB	Office of Management and Budget
OPLOC	Operating Location
PPA	Prompt Payment Act



INSPECTOR GENERAL  
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June 5, 2000

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION,  
TECHNOLOGY, AND LOGISTICS  
UNDER SECRETARY OF DEFENSE (COMPTROLLER)  
ASSISTANT SECRETARY OF THE AIR FORCE  
(FINANCIAL MANAGEMENT AND COMPTROLLER)  
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING  
SERVICE  
DIRECTOR, AIR NATIONAL GUARD

SUBJECT: Audit Report on Controls Over the Integrated Accounts Payable System  
(Report No. D-2000-139)

We are providing this report for review and comments. This audit was conducted at the request of Senator Charles E. Grassley. We considered management comments on the draft of this report when preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. As a result of management comments, we redirected Recommendation B.3. to the Under Secretary of Defense for Acquisition, Technology, and Logistics and deleted Recommendation C.2. The Under Secretary of Defense (Comptroller) and the Air Force comments were generally responsive; we request additional Air Force comments on Recommendation B.4.b. The Defense Finance and Accounting Service comments were partially responsive. We request additional comments on Recommendations A.1.c., A.3., B.2.a., B.2.c., B.4.b., C.1., C.2., and C.7. The Director, Air National Guard, did not provide comments on the draft report. Therefore, we request that the Director, Air National Guard, provide comments on Recommendation A.3. We request that management provide all comments by August 4, 2000.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Richard B. Bird at (703) 604-9159 (DSN 664-9159) (rbird@dodig.osd.mil) or Mr. Carmelo G. Ventimiglia at (317) 510-3852 (DSN 699-3852) (cventimiglia@dodig.osd.mil). See Appendix G for the report distribution. The audit team members are listed inside the back cover.

A handwritten signature in black ink, reading "Robert J. Lieberman", is positioned above the printed name.

Robert J. Lieberman  
Assistant Inspector General  
for Auditing

## Office of the Inspector General, DoD

**Report No. D-2000-139**

**June 5, 2000**

(Project No. D1999FI-0081) (formerly Project No. 9FI-5019)

### **Controls Over the Integrated Accounts Payable System**

#### **Executive Summary**

**Introduction.** The audit was conducted at the request of Senator Charles E. Grassley. The Defense Finance and Accounting Service (DFAS) uses the Integrated Accounts Payable System (IAPS) to make vendor payments in support of the Air Force. Serious internal control weaknesses have been reported over the years in DoD payment processes and systems. Starting in June 1997, a legislative assistant of Senator Grassley and a senior Air Force official reviewed the circumstances that allowed an Air Force noncommissioned officer assigned to DFAS to make fraudulent payments. In September 1998, they reported that the case was symptomatic of widespread vulnerability to fraud. In support of their review, the General Accounting Office also reviewed two specific cases of fraud involving vendor payments made with Air Force funds. The General Accounting Office concluded that the two cases of fraud resulted from a weak internal control environment. In February 2000, the Air Force Audit Agency reported that, although internal controls had improved, pay technicians and certifying officers did not consistently comply with established controls governing payments.

**Objectives.** The overall audit objective was to evaluate the controls associated with IAPS and its computation of vendor payments. We also reviewed the effectiveness of the management control program as it related to vendor payments.

**Results.** The DFAS Denver Center improved controls over the processing of payments by separating organizational responsibility for vendor payment functions, developing access levels in IAPS that corresponded with the segregation of organizational responsibility, and reducing the number of employees with access to IAPS. The actions taken by the DFAS Denver Center improved management controls; however, further improvements were needed.

Although DFAS Denver Center and the Air Force changed access levels of personnel, controls over IAPS still did not effectively prevent unwarranted and unauthorized system access and ensure adequate audit trails. As a result, IAPS vulnerabilities had not been minimized, and individuals might be able to circumvent the interest requirements of the Prompt Payment Act (Finding A).

Controls over vendor payment operations did not ensure that vendor payments were properly supported and represented valid payments. Our review indicated that approximately 176,000 of the 306,939 contract and miscellaneous payments made between April 1 and June 30, 1999, lacked, to various degrees, support required by regulations implementing the Prompt Payment Act. The determination that a payment

was not supported did not mean that the payment was invalid or fraudulent. However, documentation to support payments is a key internal control, and deficiencies in that documentation increase the risk of error and fraud (Finding B).

The internal control structure of vendor payment operations needed further improvements to ensure that documents were adequately controlled and payments were properly supported. As a result, the DFAS Denver Center could not ensure that improperly supported and erroneous payments would be detected and corrected before payment (Finding C). See Appendix A for details on the management control program as it relates to controls over vendor payments.

**Summary of Recommendations.** We recommend that the Under Secretary of Defense (Comptroller) amend DoD Regulation 7000.14-R, the “DoD Financial Management Regulation,” volume 10, to fully comply with requirements of 5 Code of Federal Regulations Part 1315, “Prompt Payment Act; Final Rule,” and standardize the rules for making miscellaneous payments. We recommend that the Director, DFAS Denver Center, properly align access levels to IAPS, reduce or eliminate unnecessary access, and discontinue the practice of removing invoices from IAPS without supervisory approval. We also recommend that the Director, DFAS Denver Center, rescind local guidance and develop a desktop guide to facilitate compliance with DoD guidance, implement a business structure that results in better control over and more detailed reviews of supporting documents, develop management tools needed to improve detection and correction of control weaknesses, and report access to IAPS as a material management control weakness. We recommend that the Director, DFAS Denver Center, in coordination with the Assistant Secretary of the Air Force (Financial Management and Comptroller) and the Director, Air National Guard, reduce the number of individuals granted authority to update information in IAPS and develop controls to ensure that no individual can make fraudulent or unsupported payments. We also recommend that the Under Secretary of Defense for Acquisition, Technology, and Logistics make needed changes to forms used as receiving reports. We recommend that the Assistant Secretary of the Air Force (Financial Management and Comptroller) work with the Air Force contracting community to ensure that all contract documents provide the information needed to make proper payments.

**Management Comments.** The Assistant Secretary of the Air Force (Financial Management and Comptroller) and the Deputy Director, DFAS, concurred with most of the recommendations, although both sets of comments stressed that the audit results did not mean there was a high risk of fraud or circumvention of the Prompt Payment Act. DFAS agreed to further improve its monitoring of IAPS access and eliminate unnecessary access. The Air Force agreed to work with the DFAS Denver Center to reduce access for base-level individuals who do not use IAPS for extended periods of time. They also agreed to assess the need for Rome Laboratories to maintain obligation functions and, if necessary, move the work load to a DFAS operating location. The Director, Air National Guard, did not provide comments on the draft report. However, DFAS agreed to coordinate access for Air National Guard personnel with the Director, Air National Guard, and, if necessary, relocate the work load to the DFAS operating locations. DFAS did not agree that supervisory approval was needed before deleting invoices from IAPS.

The Under Secretary of Defense (Comptroller) agreed to amend DoD Regulation 7000.14-R, volume 10, after the Federal Acquisition Regulation is updated. He agreed to assess the guidance on miscellaneous payments. The Deputy Director, DFAS,

agreed to rescind DFAS-DE 7010-2.R, "Commercial Transactions at Base Level," after DoD Regulation 7000.14-R, volume 10, is updated. Meanwhile, the DFAS Denver Center has issued a new standard vendor pay guide to facilitate compliance with current regulations. DFAS also agreed to work with the Air Force to ensure the proper use and preparation of Miscellaneous Obligation and Reimbursement Documents. The Air Force agreed to consider using a locally developed form to record receipt and acceptance until standard forms are changed or an automated solution could be fully implemented. The Air Force and DFAS agreed to work with the contracting community to ensure that all contracting documents provide the information needed to make proper payments. DFAS also agreed to improve the usefulness of a standard product for obtaining missing receiving reports, implement management tools to detect control weaknesses in the payment process, and establish positive document controls. However, DFAS did not agree to establish a mechanism for tracking documents in the operating locations. DFAS agreed that the ability of individuals to gain unauthorized access to IAPS was a material weakness, but disagreed that the ability to remove invoices from IAPS and problems with supporting vendor payments were material weaknesses. See the Finding section of the report for a discussion of management comments and the Management Comments section for the complete text of the comments.

**Audit Response.** Comments from the Under Secretary of Defense (Comptroller), DFAS, and the Air Force were generally responsive. We request that the Air Force, Air National Guard, and DFAS provide comments on the final report by August 4, 2000.

Based on comments from DFAS and the Air Force, we have redirected Recommendation B.3.a., to change the forms used as receiving reports, to the Under Secretary of Defense for Acquisition, Technology, and Logistics. We request comments on the recommendation by August 4, 2000.

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## Background

**Vendor Payments.** Vendor payments are made for operational support such as utilities, medical services, and administrative supplies and services. The vendor payment process depends on hard-copy documents. Payments must be supported by an obligating document (contract, purchase order, or other document that obligates the Air Force to pay for goods or services), an invoice, and a receiving report. For most payments, members of vendor payment teams at the DFAS operating locations (OPLOCs) review these documents for accuracy and completeness and enter information into IAPS to create a payment voucher, which is approved by a certifying officer. Certifying officers compare payment vouchers to invoices and receiving reports to ensure the accuracy of the payment information before disbursement. For Air National Guard (ANG) payments, most DFAS OPLOCs transfer the function of reviewing supporting documents and certifying payment vouchers to ANG units. Following certification, the payment information is loaded into the disbursing system. The disbursing system uses the payment transactions generated by IAPS to make disbursements.

**Congressional Request.** Senator Grassley requested that the Inspector General, DoD, determine whether controls over IAPS vendor payments were adequate.

**Automated System for Making Air Force Vendor Payments.** DFAS uses IAPS to control most installation-level commercial vendor payments for Air Force customers. The system computes accounts payable due dates, payment amounts, and interest payments. IAPS receives data from manual sources and from interfaces with several automated systems. IAPS uses both automated and manual controls to maintain accurate and complete data. DFAS plans to begin replacing IAPS with the Defense Procurement Payment System in December 2000.

**Role of DFAS.** The DFAS Denver Center, Denver, Colorado, is responsible for the accounting, disbursing, collecting, and financial reporting of Air Force vendor payments. The DFAS Denver Center has six OPLOCs located throughout the United States. Four other OPLOCs that are under the control of two other DFAS Centers make vendor payments using IAPS. The DFAS Denver Center provides direction and guidance to the vendor payment teams at those four OPLOCs. The OPLOCs that make vendor payments using IAPS are identified in Appendix A. During FY 1999, about 1.2 million vendor payments, valued at \$16.5 billion, were made for Air Force customers using IAPS.

**General Accounting Office (GAO) Report.** At the request of Senator Grassley, the GAO reviewed two cases of fraud involving Air Force vendor payments. GAO, in Report No. GAO/AIMD-98-274, "Improvements Needed in Air Force Vendor Payment Systems and Controls," September 28, 1998, concluded that the two cases of fraud resulted from a weak internal control environment. GAO reported that similar internal control weaknesses continued to leave Air Force funds vulnerable to fraudulent and improper vendor



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payments. Many DFAS and Air Force employees had a level of access to IAPS that allowed them to enter contract information as well as invoice and receiving report information. Further, DFAS lacked procedures to ensure that the dates that invoices were received for payment and the dates that goods and services were received were properly entered in IAPS. These are critical dates for ensuring proper vendor payments and compliance with the Prompt Payment Act (PPA), which requires that payments made after the due date include interest.

**Air Force Audit Agency Report.** At the request of the Assistant Secretary of the Air Force (Financial Management and Comptroller), the Air Force Audit Agency reviewed the goods and services processed through the 11th Wing, Bolling Air Force Base. Based in part on interim audit results, internal control improvements were made in vendor payment operations. In October 1998, the Office of the Assistant Secretary of the Air Force (Financial Management and Comptroller) and the DFAS Denver Center requested an expanded review of internal controls related to Air Force vendor payments.

Air Force Audit Agency Report No. 98054032, "Internal Controls Over the Purchase of Goods and Services," February 23, 2000, stated that Air Force and DFAS Denver Center personnel implemented internal control improvements during the review that reduced the risks associated with payments of goods and services. However, further actions were needed to improve controls over accounting system access and vendor payment transactions. The report stated that Air Force and DFAS controls over system access were generally adequate when implemented as designed, but additional improvements were needed. In addition, installation-level controls for authorizing and reporting purchases required strengthening. However, management personnel at several locations did not implement existing transaction controls. The Air Force Audit Agency planned to issue reports on FY 1999 financial statement audits that would also address vendor payments.

## Objectives

The overall audit objective was to evaluate the controls associated with IAPS and its computation of vendor payments. We also reviewed the effectiveness of the management control program as it related to vendor payments. See Appendix A for a discussion of the audit scope and methodology and our review of the management control program. See Appendix B for a summary of prior audit coverage related to the audit objectives.

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## **A. Access to the Integrated Accounts Payable System and Other System Concerns**

The DFAS Denver Center established systematic controls to segregate duties and reduced access to IAPS. However, improved controls were needed to reduce the risk of unwarranted and unauthorized system access and to maintain adequate audit trails. Control weaknesses existed because:

- system access was not terminated when employees did not use IAPS for extended periods of time,
- Air National Guard personnel were granted unrestricted access without compensating controls,
- system access at Air Force installations was not reduced,
- passwords were shared, and
- IAPS allowed invoices to be removed from the system.

As a result, IAPS remained vulnerable, and individuals could circumvent interest payments to vendors – payments that were required by the PPA.

### **Previously Reported Problems**

GAO issued Report No. GAO/AIMD 98-274, recommending that the Director, DFAS, strengthen payment processing controls by establishing separate responsibilities for entering payment data and revising vendor payment access levels to correspond with the new structure. GAO also recommended that the number of individuals granted access to IAPS be reduced.

GAO/AIMD-00-21.3.1, “Standards for Internal Control in the Federal Government,” November 1999, requires access restrictions and segregation of key duties in authorizing, processing, recording, and reviewing transactions.

On August 19, 1998, the Director, DFAS, issued a memorandum that directed all DFAS Centers to perform a comprehensive review of the segregation of duties within their vendor payment offices and develop a plan of action to correct any problems. The DFAS Centers were also to review and reduce the access levels in IAPS.

### **Improved Access Levels Implemented in IAPS**

**Access to IAPS.** In response to the GAO report, the DFAS Denver Center reviewed and reduced the number of individuals with access to IAPS. The

DFAS Denver Center also developed a system change that increased the number of access levels in IAPS from 4 to 10. Appendix D identifies the 10 access levels and describes the functions that each access level allows an individual to perform in IAPS. The DFAS Denver Center also designed a new vendor payment structure that segregated duties at OPLOCs. The system change was implemented in IAPS on August 4, 1999. By increasing the number of access levels, the DFAS Denver Center ensured that no individual could enter all the data in IAPS needed to process a payment. Using the revised access levels, the DFAS Denver Center tasked the OPLOCs to further reduce the number of individuals with system access. Table 1 compares the total number of individuals with IAPS as of July 23, 1999, and as of our visits to each of the six DFAS Denver Center OPLOCs after implementation of the system change.

<b>Table 1. Reductions in IAPS Access</b>								
	Number of Individuals by Organization With System Access as of July 23, 1999 <sup>1</sup>				Number of Individuals by Organization With System Access After System Change			
<u>Location</u>	<u>OPLOC</u>	<u>FSO</u>	<u>ANG</u>	<u>Total</u>	<u>OPLOC</u>	<u>FSO</u>	<u>ANG</u>	<u>Total</u>
Dayton	365	274	82	721	331 <sup>2</sup>	305	89	725
Denver	301	462	47	810	128 <sup>2</sup>	359	49	536
Limestone	315	255	38	608	146	295	48	489
Omaha	220	240	66	526	147 <sup>2</sup>	322	79	548
San Antonio	331	288	35	654	135 <sup>2</sup>	274	31	440
San Bernardino	<u>286</u>	<u>393</u>	<u>57</u>	<u>736</u>	<u>157<sup>2</sup></u>	<u>317</u>	<u>61</u>	<u>535</u>
<b>Total</b>	<b>1818</b>	<b>1912</b>	<b>325</b>	<b>4055</b>	<b>1044<sup>2</sup></b>	<b>1872</b>	<b>357</b>	<b>3273</b>
<p>1. Information for the Orlando and European OPLOCs was not available.</p> <p>2. Includes 138 individuals with Transactions For Others Cell inquiry access that had not been deleted when the Transactions For Others Cells were shutdown. This included 114 individuals at Dayton, 11 at Denver, 5 at Omaha, 5 at San Bernardino, and 3 at San Antonio.</p>								

The DFAS Denver Center OPLOCs significantly reduced the number of individuals with access to IAPS. However, IAPS access in the FSOs and the ANG was not significantly reduced. IAPS access approved by Air Force Financial Services Offices (FSOs) decreased only slightly, from 1,912 to 1,872. IAPS access within the ANG increased from 325 to 357.

**Assignment of Access Levels Within the OPLOCs.** Not all OPLOCs assigned access levels consistent with the new standard internal control structure (see Finding C), and the number of individuals assigned to each access level was not

consistent among the OPLOCs. After the system change, the OPLOCs could assign individuals to 8 of the 10 access levels. In most cases, access was granted to correspond with an individual's assigned tasks. Table 2\* shows a breakdown of unique access levels at each OPLOC as of our visits.

<b>Table 2. Unique Access at Each OPLOC by Name and Access Level</b>								
Location	Inquiry Level (05)	Clerk IR Level (07)	Clerk O Level (08)	Clerk-Recon Level (10)	Sub Supervisor Level (30)	Supervisor Level (50)	Systems Admin Level (63)	Vend or Pay Level (70)
Dayton	61	83	35	14	10	0	9	0
Denver	44	29	23	10	3	0	8	0
Limestone	49	46	17	13	9	4	7	1
Omaha	35	62	18	8	8	2	8	1
Orlando	32	23	7	6	4	0	8	1
European	26	37	17	12	17	2	9	1
San Antonio	50	46	12	10	3	2	10	0
San Bernardino	40	60	22	14	7	4	4	1

Levels of IAPS access were not assigned consistently among the OPLOCs. For instance, the Vendor Pay access level was assigned at five of the eight sites. When this access level was assigned, it was not assigned consistently to the same positions within the OPLOC. The OPLOCs inconsistently assigned the Sub-Supervisor access level. At two OPLOCs, three people were assigned the Sub-Supervisor access level. At the European OPLOC, Ramstein Air Base, Germany, 17 people had that access level. Since the Sub-Supervisor access level allowed the user to change the electronic funds transfer (EFT) and remittance information, it should have been given only to individuals in the reports and reconciliation section. The European OPLOC inappropriately allowed individuals on the payment teams to retain access. By allowing individuals on the payment teams to have this level of access, individuals assigned to a single

\*Table 2 represents only the access levels issued to individuals within the OPLOC. Two additional levels granted to individuals outside the OPLOC are not included.

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supervisor could enter all data necessary for payment. The DFAS Denver Center should evaluate the differences among the OPLOCs in assignment of access levels and eliminate unnecessary IAPS access.

**Monitoring Base-Level Access.** Opportunities existed to significantly reduce IAPS access granted at Air Force installations. Access granted to individuals outside the OPLOCs was vulnerable to potential misuse and needed to be monitored. A total of 2,050 individuals at bases had access to IAPS. The new system changes significantly reduced the functions that base-level individuals can accomplish in IAPS. Since 1998, these functions have been reduced to the recording of commitments and the updating of receiving report data.

**Update Access.** Clerk-FSO (level 09) access was assigned to 938 people at Air Force FSOs. The Clerk-FSO access allowed base financial managers to update commitment information and input receiving report information. The Clerk-FSO access should be limited to financial managers with job responsibilities that require them to regularly update IAPS. The remaining 1,112 individuals at base level had only inquiry-level (05) access. This access was granted to financial managers to allow them to track the expenditure of funds and enhances the controls for ensuring proper payments.

**Lack of Use.** About 34 percent (693 of 2,050) of the individuals at base level with IAPS access were not using the system on a regular basis. OPLOC reports showed that 693 individuals had not used IAPS within a 60-day period. As the system managers, DFAS Denver Center personnel need to monitor lengthy periods of system inactivity and remove access authority for individuals who cannot justify continued access.

**Rome Laboratory.** Four employees at Rome Laboratories, Rome, New York, possessed Clerk-Obligation (level 08) access to IAPS. These were the only employees outside the OPLOCs who had this access level. An agreement between the Dayton OPLOC, Dayton, Ohio, and the Rome Laboratory permitted the Rome Laboratory to enter its own obligations. The Dayton OPLOC attempted to remove this access but was told that it was needed. Segregation of duties requires Air Force financial managers to justify why this level of access is required. If unnecessary, the obligation function for Rome Laboratories will need to be returned to the OPLOC and the system access removed.

**ANG Access.** Unrestricted IAPS access was given to 310 ANG employees at 99 ANG locations. The system change created a new level of access (level 06) for ANG personnel. Level 6 access gave ANG employees the same unrestricted access to IAPS that existed at the OPLOCs before the system change. The ANG entered invoices, receiving reports, and obligating documents in IAPS and often certified payment vouchers. Because ANG units did not have sufficient personnel to properly separate duties, the ANG was given this unrestricted access. However, neither the DFAS Denver Center nor the ANG had established controls that compensated for the lack of separation of duties. Because these payments were certified as proper by the ANG, OPLOC personnel were not required to review the support for these payments, and did not do so. A review of 15 ANG payments in our sample showed that 10 were

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not properly supported. Unrestricted access to IAPS had previously resulted in fraud and improper payment practices at the Dayton OPLOC. Without separation of duties or proper monitoring of payments made by the ANG, payments made by the ANG may result in fraudulent or improper payments if not properly controlled. Unless adequate compensating controls can be established, the DFAS Denver Center should transfer responsibility for making ANG vendor payments to the OPLOCs and eliminate this access level.

An additional 51 ANG employees had inquiry access. Reports indicated that 93 of the total 361 ANG employees with IAPS access (40 inquiry and 53 unrestricted) had not accessed the system within 60 days. DFAS Denver Center personnel need to monitor lengthy periods of system inactivity and remove access authority for individuals who cannot justify continued access.

## System Concerns

System weaknesses contributed to unauthorized IAPS access and the ability to circumvent interest payments (interest payments are required by the PPA).

**Shared Passwords.** The ability of one user to open multiple screens to research and enter payment information was used to grant unauthorized system access. IAPS allowed a user to log on multiple times with the same user identification code and password. However, because this capability was not limited to one workstation, an employee could log in at multiple workstations simultaneously.

During our visit to the OPLOC Orlando, Orlando, Florida, vendor payment managers allowed this capability to be used to let a new employee without system access perform payment-related functions in IAPS. The employee was logged on to IAPS by another technician, using the technician's user identification code and password. This weakness allowed the employee without IAPS access to update IAPS vendor records. When the Director of the Orlando OPLOC was advised of this situation, the practice was stopped immediately. DFAS is taking action to determine whether potential fraud occurred and whether the employees involved should be disciplined. Although we recognize the need for an ability to open multiple screens within IAPS, the DFAS Denver Center must develop controls to ensure that this occurs only at a single workstation.

OPLOC Orlando also reported that the system used to make Army payments had the material weakness of allowing a user to log on at multiple workstations with the same user identification code and password. A system change to correct the deficiency was requested. The DFAS Denver Center should request a system change to IAPS to correct this weakness or develop compensating controls if a system change is not feasible.

**Removal of Invoice Data from IAPS.** IAPS allowed the removal of invoices without proper authorization or adequate audit trails. During our review of the eight OPLOCs, we determined that invoices had been removed from IAPS. Pay technicians had removed invoices from IAPS at the direction of installation

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resource advisors. This situation came to our attention when we observed a technician entering invoices into IAPS. A detailed review of one of these invoices showed that an invoice dated September 15, 1999, was being entered into the system on February 29, 2000. The contract comments showed that on December 20, 1999, the invoice was removed from the system at the direction of Bolling Air Force Base (Bolling), Washington, D.C., which claimed nonreceipt of the goods. Bolling Air Force Base subsequently resubmitted the invoice on February 28, 2000, with a receiving report showing that the goods were received on September 22, 1999.

Because the invoice received a new invoice receipt date upon resubmission, the vendor would not have been paid interest as required by the PPA. When we informed OPLOC managers of this situation, an appropriate invoice receipt date was entered into IAPS and interest was paid to the vendor. Denver OPLOC personnel explained that they often removed invoices based on directions from installation resource advisors that goods had not been received. Denver OPLOC personnel provided us a listing submitted by Bolling identifying several invoices that should be removed from IAPS because Bolling had not received delivery of the contract items. Denver OPLOC personnel further stated that they did not contact the vendors to verify that the goods had not been shipped before removing the invoices from IAPS.

Another situation came to our attention when we tried to determine the status of unpaid invoices that appeared on IAPS reports. We could not locate several invoices on these reports because the invoices no longer appeared in IAPS and no audit trail showed what had happened to the invoice. At OPLOC Orlando, an invoice was selected to determine why it was not paid. Technicians at the OPLOC could not find this invoice, and it no longer appeared in IAPS. When we reviewed the contract files, the returned invoice listing, and IAPS contract comments, we found no audit trail for the invoice. The only proof that the invoice was entered into IAPS was the entry on the unpaid invoice report. OPLOC managers explained that contract comment screens did not always contain audit trails because technicians did not use the data and could remove it; the screens had a limited capacity, and older data may have been deleted.

IAPS should not allow invoices to be removed from the system without leaving an audit trail. There may be legitimate reasons to remove invoices from IAPS, such as invoices that were previously paid or improperly entered in the system. However, an audit trail is needed so that management knows why the invoices were removed. Allowing invoices to be removed from IAPS allows interest payments to vendors, required by the PPA, to be circumvented.

## **Summary**

The DFAS Denver Center established systematic controls to segregate duties and reduced access to the IAPS. However, the DFAS Denver Center needed to reassess the system access given to users, especially users outside the OPLOCs. Giving access to more individuals than necessary increases the risk of unwarranted and unauthorized access and the likelihood that unsupported and

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improper payments would be made. Other system weaknesses contributed to unauthorized IAPS access and the ability to circumvent interest payments to vendors, as required by the PPA. Additional actions must be taken to limit access to IAPS and ensure that audit trails are maintained to track invoices from receipt to payment, including any intervening actions that may affect payment.

## **Recommendations, Management Comments, and Audit Response**

**A.1. We recommend that the Director, Defense Finance and Accounting Service Denver Center:**

**a. Align access levels to the Integrated Accounts Payable System to correspond with the separation of responsibilities and eliminate unnecessary access.**

**DFAS Comments.** The Deputy Director, DFAS, concurred and stated that DFAS is committed to eliminating unnecessary access and will assign system access according to the new, standard organizational structure for vendor pay.

**Audit Response.** The DFAS comments are responsive. However, DFAS must ensure that each of the OPLOCs that use IAPS has similar levels of system access.

**b. Develop a procedure and time frame for removing access to the Integrated Accounts Payable System because of user inactivity.**

**DFAS Comments.** DFAS concurred, stating that the DFAS Denver Center has established a new database of individuals with IAPS access that will be used to monitor usage and identify candidates for termination.

**Audit Response.** The DFAS comments are responsive.

**c. Direct that the practice of removing invoices from the Integrated Accounts Payable System be stopped unless supervisory approval is given and the reasons for removal are documented.**

**DFAS Comments.** DFAS partially concurred with the recommendation. The Deputy Director did not agree that supervisory approval was an effective control. He stated that the OPLOCs were required to maintain a log for all returned invoices.

**Audit Response.** The DFAS comments are partially responsive. Strict management controls are needed to prevent the removal of invoices from the system before verifying with the vendor that goods and services were not delivered. The logs maintained at the OPLOCs did not contain sufficient information to explain why invoices were removed from the system and returned to the vendor. Requiring supervisory approval before removing invoices helps



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to ensure that the action was warranted. We request that DFAS reconsider its position on the recommendation and provide additional comments on the final report.

**d. Reduce the number of individuals at operating locations with the authority to update information in the Integrated Accounts Payable System, considering the organizational responsibilities of users and the frequency of use.**

**DFAS Comments.** DFAS concurred with the recommendation.

**A.2. We recommend that the Director, Defense Finance and Accounting Service Denver Center, in coordination with the Assistant Secretary of the Air Force (Financial Management and Comptroller):**

**a. Reduce the number of individuals granted authority to update information in the Integrated Accounts Payable System at the installation level, considering the organizational responsibilities of users and the frequency of use.**

**Air Force Comments.** The Assistant Secretary of the Air Force (Financial Management and Comptroller) partially concurred, stating that providing user access is a local management responsibility based on organizational needs. The Air Force stated that it has significantly reduced the functions that installation-level personnel can perform in IAPS since August 1998. As a result, installation-level personnel can only view contract and payment status, update commitments, and enter receiving report data. The Air Force stated that the DFAS Denver Center will direct that IAPS reports be reviewed monthly and remove individuals with inquiry access after 120 days of inactivity. Users with other types of access will be deleted after 60 days of inactivity.

**DFAS Comments.** DFAS concurred in principle with the recommendation, stating that the DFAS Denver Center will work with the Air Force on system access.

**Audit Response.** The Air Force and DFAS comments are responsive. We agree that the functions that base-level personnel can perform have been reduced significantly and that this has enhanced the overall control environment. However, we identified many employees who retained system access, despite extensive periods in which they did not access IAPS. The Air Force proposal for removing inactive users is reasonable.

**b. Remove the access that allows Rome Laboratories to establish obligations in the Integrated Accounts Payable System.**

**Air Force Comments.** The Air Force concurred in principle with the recommendation, stating that the requirement for Rome Laboratories to establish obligations in IAPS will be reevaluated. If not required, the work load will be moved back to the OPLOC by July 30, 2001.

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**DFAS Comments.** DFAS concurred in principle with the recommendation, stating that the DFAS Denver Center will coordinate system issues with the Air Force.

**Audit Response.** The Air Force and DFAS comments are responsive. The reevaluation, which should be coordinated with DFAS, should determine whether maintaining this access is necessary. That determination should not take more than 1 year to complete.

**A.3. We recommend that the Director, Defense Finance and Accounting Service Denver Center, in coordination with the Director, Air National Guard, develop controls to ensure that no individual is allowed to enter contract information as well as invoice and receiving report information and remittance addresses, unless appropriate compensating controls are in place and operating. If not feasible, relocate the vendor payment work load to the operating locations and remove access level 06 from Air National Guard employees.**

**DFAS Comments.** DFAS concurred in principle with the recommendation, stating that DFAS will work with the Air National Guard on limiting system access and either restrict access or agree to relocate the work load to the OPLOCs.

**Audit Response.** The DFAS comments are partially responsive. DFAS should take prompt action to adjust access for Air National Guard personnel. We request that DFAS provide additional comments on the final report, explaining the actions planned to limit system access.

**Air National Guard Comments.** The Director, Air National Guard, did not comment on the draft of this report. Therefore, we request that the Air National Guard provide comments on the final report.

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## B. Documentation Supporting Vendor Payments

Contractual payments were frequently not supported by documents that complied with the PPA. Miscellaneous payments also were not properly supported. Our review showed that approximately 176,000 of the 306,939 payments made between April 1 and June 30, 1999, lacked elements of support prescribed in regulations implementing the PPA. The fact that a payment was not supported did not mean that the payment was invalid or fraudulent, but indicated failures to follow procedures. This occurred because:

- DoD guidance on supporting documentation conflicted with the requirements in the Office of Management and Budget (OMB) guidance and the Federal Acquisition Regulation (FAR),
- technicians incorrectly entered payment data into IAPS,
- obligation documents did not contain the information necessary to make proper payments, and
- standard procedures were not developed to provide for proper support for miscellaneous payments.

As a result, DFAS Denver Center and Air Force managers assumed an increased risk that payments were not made in compliance with the PPA and that improper payments may have been made.

## Review of Vendor Payments

**Types of Payments.** The DFAS OPLOCs made payments that required varying levels of support in order to be considered proper. The PPA has strict requirements that supporting documents must meet in order to be considered proper. DFAS Denver Center OPLOCs made payments based on contractual documents that needed to comply with the prompt payment criteria and miscellaneous payments that the DFAS Denver Center had exempted from many support requirements.

**Criteria.** Technicians entering data into IAPS needed to be familiar with guidance issued by several organizations. This guidance often gave conflicting information on what to use as adequate supporting documentation when making vendor payments. The principal guidance used for making payments to vendors was the PPA, as outlined in OMB Circular No. A-125, "Prompt Payment," December 12, 1989. The circular was subsequently codified in 5 Code of Federal Regulations Part 1315, "Prompt Payment; Final Rule," September 29, 1999. The requirements for supporting documentation were further defined for DoD in FAR Subpart 32.9, "Prompt Payment," and DoD FAR Supplement Subpart 32.9, "Prompt Payment." The guidance was incorporated for DoD

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financial managers in DoD Regulation 7000.14-R, the “DoD Financial Management Regulation,” volume 10, “Contract Payment Policy and Procedures,” November 1999.

The DFAS Denver Center further defined the requirements for supporting documents in DFAS-DE 7010.2-R, “Commercial Transactions at Base Level,” January 31, 1996, and exempted many miscellaneous payments from the requirements.

**Sample Selection.** To determine whether documentation used in supporting IAPS payments complied with the PPA, we obtained a population of 306,939 payments, valued at about \$3.4 billion, made in IAPS between April 1 and June 30, 1999. Because the payments were made at 10 OPLOCs worldwide, using both U.S. and foreign currencies, we could not accurately determine the exact dollar value of the population. From this population, we selected a sample of 240 payments in three strata. The sample review assessed each item’s documentation (invoice, receiving report, and obligation document) against the criteria for proper support in the PPA and FAR. The sample also determined whether the data on the supporting documents were entered correctly in IAPS. Details concerning sample selection are in Appendix C.

## Sample Results

Approximately 176,000 of the 306,939 payments made between April 1 and June 30, 1999, were not supported in compliance with the PPA. The review of sample items showed that the OPLOCs required varying levels of support for contractual and miscellaneous payments. As a result, it was important to determine which category of payment each sample item represented. Of the selected items reviewed, 148 items were contractual payments, and the remaining were miscellaneous payments. Table 3 shows the projections of the estimated number of payments that were not properly supported for each type of payment. Appendix C gives details of projections and confidence levels.

<b>Table 3. Estimated Payments Not Properly Supported by Type of Payment</b>		
Type of Payment	Total Payments	Estimate of Improper Payments
Contractual	163,892	79,009
Miscellaneous	143,047	96,922
Total	306,939	175,931

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Payments made to contractual documents were required to meet the PPA requirements or were considered improper. To determine whether miscellaneous payments were proper, we held them to similar standards. Although a case can be made for not holding this type of payment to strict standards, the DFAS Denver Center was required to develop a standard for supporting documentation for each type of miscellaneous payment to ensure that the payments were proper. The determination that a payment was not properly supported did not mean that the payment was invalid or fraudulent. Our sample showed that only 20 of the payments reviewed should not have been made to the vendor. Based on the requirements of the contract and documentation supporting the payments, the vouchers should have been voided and the necessary corrective actions taken before the payments were made. When projected across the population, this would result in between 8,395 and 41,638 incorrect payments.

The review of the sample items showed inconsistencies in how DFAS personnel interpreted the requirements for what was needed to properly support vendor payments. Generally, the requirements in the FAR, DoD Regulation 7000.14-R, and the DFAS Denver Center guidance were in agreement with OMB Circular No. A-125. However, in some respects, the DFAS Denver guidance and DoD Regulation 7000.14-R conflicted with OMB Circular No. A-125. These documents did not always agree on what constituted a proper invoice, receiving report, and contract. The guidance in DoD Regulation 7000.14-R also did not give sufficient details to guide the payment of certain miscellaneous payments. Further, the codification of the PPA in 5 Code of Federal Regulations Part 1315, on September 29, 1999, changed some requirements in OMB Circular No. A-125. Appendix E identifies the differences in the guidance. Some of the inconsistencies in the guidance contributed to the problems we identified in properly supporting vendor payments.

## Contractual Payments

**Determination of Proper Payments.** Payments made on contractual documents were expected to meet all PPA requirements for proper invoices, receiving reports, and contracts. If the documents were improper, they were to be returned to the originator and no payment made until the OPLOC received a clearly marked corrected copy of the document for payment. The results of the sample showed that about 79,009 IAPS payments were made between April 1 and June 30, 1999, without proper support. The payments were made because DFAS had issued guidance that allowed OPLOCs to make payments without fulfilling all requirements of the PPA and because technicians failed to detect errors in the supporting documents when entering them into IAPS. During the review, we classified the items that were necessary for a document to be considered proper support for a payment. If the document did not meet these requirements, we considered it improper. Table 4 shows the estimated number of unsupported payments caused by each type of supporting document. Because

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more than one document could have caused a payment to be unsupported, the total number of improperly supported payments in Table 4 exceeds 79,009 payments. Appendix C provides details of the sample.

<b>Table 4. Estimated Number of Payments Not Properly Supported by Type of Document</b>	
<b>Improper Document</b>	<b>Number of Payments</b>
Invoice	35,590
Receiving Reports	71,778
Contract	Not Reportable

**Invoices.** The PPA required that a vendor generate an invoice and send it to the designated billing office specified in the contract when goods were delivered or services performed. The designated billing office should immediately date-stamp the invoice and perform a review to determine whether the invoice is proper for payment. If the invoice is determined to be proper, it should be sent to the payment office for entry into IAPS and payment as required by the PPA. If determined to be improper, the invoice should be returned to the vendor within 7 days of receipt, identifying all defects that prevented payment and requesting that the vendor send a clearly marked corrected invoice to the designated billing office for payment. Invoices were improper if they did not contain a contract number, were inconsistent with the contract, did not adequately describe what was purchased, or were altered. When our results were projected over the entire population, about 35,590 invoices submitted were not proper for payment and should have been returned. Appendix C gives details of the sample projections.

**Contract Numbers.** DFAS Denver Center OPLOCs made payments based on invoices that did not have contract numbers identified on the original invoices submitted by the vendors. The OPLOCs accepted the changed or altered contract number added by the installation or added a pseudo-contract number to the invoice. Our sample showed that this condition occurred for 14 payments made to contractual documents. For example, a contractor submitted invoice number 50698471 to Rome Laboratories, identifying a previous year's contract number on the invoice. Instead of returning the invoice to the vendor, the installation crossed out the old contract number and placed a current-year contract number on the invoice. Further review of the contracts showed that the monthly rate billed matched the older contract, but could not be matched to any of the line items in the newer contract. In another case, invoice number 0006, for moving and storage, provided the contract number for an active blanket purchase agreement, but the Orlando OPLOC created a pseudo-contract number and paid the invoice against it. In both cases, the

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potential existed for a duplicate invoice to be processed and paid against the other contract without detection. OPLOCs and installations should return to the vendor all invoices that are not submitted with the proper contract number.

**Consistency With Contract.** Invoices submitted for payment should be consistent with the contract. In 14 of the payments reviewed, the invoice was not consistent with the contract. Observations of payment processing at the OPLOCs showed that payment clerks did not always compare invoices to contracts to determine whether items were billed correctly. For example, invoice number 1050979 was submitted by a contractor for monthly services on 32 copiers at Scott Air Force Base, Illinois, for \$5,216; however, the contract authorized services on 28 copiers. The OPLOC did not detect this inconsistency and overpaid the contractor by \$630.70. Also, invoices received from contractors often did not bill by contract line item number, and contracts were sometimes written without specifying all the line items purchased. An invoice number 99040159 for \$2,387.76 was submitted to Scott AFB for lawn care for the period April 18 through 24, 1999. The invoice did not identify what service was being purchased, but charged for delivery of 1 item on a contract that contained 87 line items. Only the receiving report identified the service as lawn care maintenance.

**Alteration of Invoices.** Invoices that do not meet the requirements for properly supporting a vendor payment should be returned immediately to the vendor for corrections. DFAS Denver Center issued procedures that allowed for the alteration of invoice data, provided that the data were crossed out so the original information could be read and initialed by the person making the correction. We found that 19 invoices were altered so that the information needed for payment would be proper. None of the invoices that were altered were identified as corrected invoices. Individuals at the installations, not the vendors who submitted the original invoices, usually corrected the invoices. When questioned about the corrections, OPLOC technicians could not identify the persons who made the changes. Because these invoices were not returned to the vendors for correction, future invoices on the contracts could have the same errors. DFAS should not accept for payment any invoice that has been altered by anyone other than the originator of the invoice. To maintain a proper segregation of duties, neither OPLOC nor installation personnel should be permitted to make corrections to a vendor's invoice. Invoices with missing data should be returned to the vendor, who can make the needed correction and resubmit the clearly marked, corrected invoice.

**Conflicts in Invoice Guidance.** Guidance issued by the Office of the Under Secretary of Defense (Comptroller) and the DFAS Denver Center caused conflicts with the requirements for documenting that invoices were proper and documenting their receipt by the designated billing office. DoD Regulation 7000.14-R, volume 10, allowed the payment of invoices that did not meet all requirements. Using this exception, DFAS Denver Center personnel issued guidance that established workarounds for accepting invoices that did not meet the FAR requirements. They established guidance for creating invoice dates and invoice numbers when the invoices did not contain that information. They also

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established guidance for accepting invoice receipt dates placed on invoices by an installation when the date stamp could not be clearly identified with the designated billing office.

**Invoice Dates.** For an invoice to be proper, the FAR required that the vendor place a date on it. Invoices offering discounts could be accepted without an invoice date, but the DFAS Denver Center applied this guidance to all invoices. This allowed the OPLOCS to use the invoice receipt date, or constructive or actual acceptance date of goods and services, in place of the invoice date. Our sample showed that the contractor did not place the invoice date on five invoices.

**Invoice Numbering.** DFAS and Air Force financial managers need to require vendors to place a number on all future invoices. IAPS requires a unique number to be placed in the system for each invoice to prevent duplicate payments. Although the FAR strongly recommends invoice numbers, an invoice number should be required for a valid invoice. The lack of a unique number on the invoice makes it difficult to track individual payments through the payment process and to prevent duplicate payments. Because contracting documents do not require a unique number, the DFAS Denver Center developed procedures for establishing a number when it was not on the invoice. The guidance required the invoice date in the format “YYYYMMDD” in place of an invoice number. It also authorized the use of suffixes if more than one unnumbered invoice was received from the same vendor on the same date. For nine invoices, an invoice number needed to be created in IAPS for the payment to be made. When OMB Circular No. A-125 was codified, an invoice number became a required element; therefore, these payments would now be considered improper.

**Invoice Receipt Dates.** Technicians must correctly enter into IAPS the date an invoice was received in the designated billing office in order to properly compute the payment date and determine whether interest is due the contractor. The payment office must use the designated billing office’s date stamp for determining the correct invoice receipt date. If a proper date stamp is not on the invoice, the OPLOC is required to use the vendor’s invoice date.

Our review of selected payments showed that 29 invoices were not date-stamped by the designated billing office on receipt, and an additional 24 invoices contained a date stamp that could not be traced to the designated billing office. When invoices were sent directly to an OPLOC, they were usually properly date-stamped on arrival, clearly identifying the OPLOC. However, when an invoice was sent to an activity outside the OPLOC, it was often difficult to determine whether the date stamp was affixed to the invoice by the designated billing office or another activity. In these instances, the date stamp was often a date affixed to the invoice without any designation of the office the stamp belonged to. For example, invoice number 003091521C, which should have been received by the New York ANG contracting office, was date-stamped by the accounting and finance office. The OPLOC used the date stamped by the accounting and finance office as the invoice receipt date, although the invoice was received several days earlier. In another case, invoice



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number 289290, received at Incirlik Air Base, Turkey, was date-stamped on May 21, 1999, but the date stamp did not identify the base or organization that stamped the date.

**Invoices Sent to Installations.** We also identified invoices that were being sent to installations unnecessarily. For instance, at Wright Patterson Air Force Base, Ohio, contracts were written to have invoices sent to the base instead of the OPLOC when no base certification was required. Sending the invoice to the base slowed the payment process because the invoice had to be sent to the OPLOC to be entered into IAPS, and the date that was stamped on the invoice by the activity had to be used as the invoice receipt date. Air Force contracting offices should require invoices to be sent to a base-level activity only if a requirement exists for the user to certify what was being billed. In all other cases, the normal process for receiving reports should be used, and the invoices should be sent directly to the OPLOC. FSO personnel stated that the contracts were written to allow the bases to know what invoices were received and to send them to the OPLOC. Air Force managers should monitor whether invoices are being sent to installations unnecessarily.

**Reasonableness of Dates.** Checking the reasonableness of invoice-related dates should be part of determining whether payments are properly supported. As illustrated in the example on page 8, invoice receipt dates can result in the circumvention of prompt payment to vendors. At the eight OPLOCs, the invoice receipt dates did not appear to be reasonable; the period of time between the invoice date and the receipt date stamp was excessive. For example, invoice number 01260712 was mailed to the Dayton OPLOC with an invoice date of January 26, 1999, but the date stamp read March 11, 1999. This date was beyond a reasonable period for mail to be delivered. The goods were received at Pope Air Force Base, North Carolina, on January 28, 1999. Because an unreasonable date was used, the vendor was not paid interest. DFAS and Air Force financial managers should monitor the time between the invoice date and the date of receipt and question the reasonableness of any date that appears excessive. Managers should also determine whether personnel at the OPLOC or installations were circumventing prompt payment by using unreasonable invoice receipt dates.

**Improvements Needed in Invoice Processing.** To improve internal controls over the processing of invoices, DFAS must require that all invoices comply with the PPA. Invoices that do not meet all requirements of a proper invoice should be immediately returned to the vendor with a request that a corrected invoice be submitted. Air Force managers should ensure that contract and solicitation documents clearly identify the requirements of a proper invoice; specifically, an invoice must include a contract number, invoice number, invoice date, and a clear description of what the vendor is invoicing for. Air Force installation personnel should be directed not to alter invoices to make them correct, but to return them to the vendor as required. Installation-level personnel designated to receive invoices must immediately date-stamp the invoices, clearly identifying the designated billing office. Air Force managers should reduce the number of invoices sent to designated billing offices outside

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the OPLOC. Unless a requirement exists for an invoice to be certified by the fund manager, the invoice should not be sent to a billing office outside the OPLOC.

**Receiving Reports.** The PPA required that receipt be properly recorded at the time of delivery of goods or completion of services. Activities were to ensure that acceptance was executed as soon as possible after receipt. Receiving activities were required to submit a receiving report immediately upon each delivery of goods or completion of services, unless the contract stated that partial payment was not authorized. Receiving activities were to forward a proper receiving report to the payment office by the fifth working day after acceptance for entry into IAPS. Some Air Force activities were testing a procedure for entering their own receiving data. In either case, the receiving activity was required to verify that the receiving report was proper before entering it into IAPS. Appendix E discusses the items that are required for a receiving report to be considered proper. DFAS issued guidance on March 10, 1999, and the Vice Chief of Staff of the Air Force issued a memorandum on March 29, 1999, outlining the requirements of a proper receiving report for all Air Force activities. The guidance explained that any receiving report not complying with the guidance would be returned to the installation and could result in interest penalties. Receiving reports were considered improper if they did not show receipt and acceptance; the signature, printed name, address, title, and telephone number of the designated Government official; were inconsistent with the contract; did not adequately describe what was received and accepted; or were altered. Our review of sample payments showed that 69 invoices did not provide proper support for the payments. When projected to the entire population, about 71,778 invoices were not proper for payment and should have been returned. Appendix C contains details on sample projections.

**Receipt and Acceptance.** The receipt and acceptance of goods and services are two separate tasks performed at the installation level to ensure that the Air Force receives the items or services contracted for. A review of the sample items showed that 16 payments were either made without a proper receipt date, or an incorrect date was entered into IAPS. The sample also showed that receiving reports for 38 payments did not give the acceptance date for goods and services received.

DFAS Denver Center issued guidance stating that if the receipt block on the DD Form 250, "Material Inspection and Receiving Report," was signed, it was to be considered a proper receiving report although the acceptance block was not signed. The PPA required payments to be made based on either the actual or constructive acceptance date. When no acceptance date was given, the constructive acceptance date was to be used. The practice was also being used on other types of receipt documentation.

**Requirements for Receivers.** Detailed guidance had been issued to all activities, stating that designated Government officials must include their signature, printed name, address, title, and telephone number when verifying receipt or acceptance. The review of sample payments showed that 49 receiving reports did not give all this information. Technicians overlooked missing items

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or attempted to make the document valid by using information that the receiver had not provided. For instance, technicians used information on other documents to obtain an address or telephone number for the receiver. When the data on the receiving report were included on an invoice, technicians used the address placed on the document by the contractor as a mailing address when the receiver failed to include the address.

**Adequacy of Forms.** Our review of receiving documentation used to support payments showed that the DD Form 250; DD Form 1155, "Order for Supplies and Services;" and SF 1449, "Solicitation/Contract/Order for Commercial Payments," did not contain sufficient blocks. Space was not provided for the receiver to enter a name, address, title, and telephone number when receiving and accepting goods and services. Forms did not always provide ample space to enter dates showing both the receipt and acceptance of goods. Although guidance directs receiving activities to comply with the FAR, until the forms provide space to record the required items, errors will occur. DFAS and Air Force management should develop a single form for activities to record receipt and acceptance, requiring receivers to provide all the necessary information. Until a form is developed, DFAS should continue to return all receiving reports that do not fully comply with established guidance.

**Proper Description of Goods and Services Received.** Our review of sample payments showed that 25 receiving reports did not contain an adequate description of goods or services received. Examples of improper receiving reports included those with a description that stated only "as in invoice" or provided only an invoice number or dollar amount received. In other cases, the receiving report was for items inconsistent with the items in the contract. The invoice and receipt processes should be independent actions, and receivers should clearly state the quantity and unit and extended price of goods or services received. For example, a receiving report sent by Kirtland Air Force Base, New Mexico, to support a payment gave the invoice number, "2X13," and the amount of the invoice to describe the goods being received. This did not give proper assurance that the receiver actually received the items contracted for. Other receiving reports were for the full value of contracts, but did not list the items that were actually received.

**Improving Receiving Reports.** DFAS Denver Center should ensure that the receiving reports can give full details of the items or services actually received. Any reports that do not meet this test should be returned to the installation as improper. Air Force managers should consider developing a receiving document that provides the blocks necessary for the receiving activity to properly record all information needed to support payments and guarantee the actual receipt of goods and services.

**Obligation Documents.** The obligation documents used for payment should contain sufficient information for the payment office to properly match invoice and receipt information and send the payment to the correct location. Appendix E gives the requirements of a valid contract. The OPLOC was required to make sure that all information needed for payment was entered correctly into IAPS and made available to the clerks for processing. Our review of sample payments showed that five contracts did not provide proper support

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for the payment. Because the error rate was small, we did not project the number of contracts that were not properly supported. However, our review showed several major areas of concern in the processing of obligation information within IAPS, such as EFT and descriptions of goods and services.

**Electronic Funds Transfer.** The Debt Collection Improvement Act of 1996 required that payments be made electronically unless EFT requirements were waived under 31 Code of Federal Regulation Part 208.4. In addition, contractors were required to be registered within the Central Contractor Registry (CCR) in order to do business with DoD. DFAS had implemented a process for extracting the required information from the CCR into a Corporate EFT (CEFT) database that interfaced with IAPS. For technicians to make sure the correct information is entered, the contract must contain a valid Data Universal Numbering System (DUNS) number or a valid Contractor Activity Government Entity (CAGE) code. Many of the contracts reviewed did not give a DUNS number, and several had outdated CAGE codes, which made obtaining proper EFT information difficult. Because EFT is now the primary means of payment, contracting offices need to ensure that all contracts provide a valid DUNS number and CAGE code for payment processing.

**Remittance Addresses.** The contract should provide the payment office with a valid address to which payments are to be made. When the contract is not specific, the DFAS Denver Center provides guidance for making payment based on the remittance address on the invoice. This procedure allows anyone submitting an invoice to change the remittance address and increases the risk of improper payments. Because contractors were required to register in the CCR beginning June 1, 1998, OPLOCs should check the remittance data on the invoice with the data in the CCR, and if the data on the invoice are not valid, the invoice should be returned to the originator to be corrected. During our review, we found at least six instances in which the remittance address on the invoice differed from that on the contract, and clerks changed the address within IAPS.

**Descriptions of Items and Services.** The contract documents should clearly identify the goods or services that the Government is purchasing. When items are contracted for, the contract should list all items that will be received. We reviewed contracts that showed a single line item, but the invoice billed for several items. This makes it difficult for payment clerks to determine whether the items match the contract.

## **Support for Miscellaneous Payments**

The DFAS Denver Center issued guidance stating that payments such as claims, legal payments, and Miscellaneous Obligation and Reimbursement Documents (MORDs) were not required to meet the FAR guidelines for proper invoices, receiving reports, and obligation documents. However, the guidance did not tell the OPLOCs what was needed to ensure that the items paid for were received by the Air Force. Individual OPLOCs developed their own desk procedures to identify the information necessary to make each type of payment, but these

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procedures were not standard. At a minimum, DFAS should ensure that the vendor has a valid claim against the Government and that an employee at the installation ensures that the item or service being paid for was received and provides a proper funding document.

**Determination of Proper Payments.** When payments made for miscellaneous documents were compared to the PPA requirements for a proper invoice, receiving report, and contract, documents were not provided to properly support the payments. The sample showed that about 96,922 IAPS payments were made between April 1 and June 30, 1999, without proper support (see Appendix C). Improper payments occurred because the invoices did not contain an adequate description of what was purchased, and the DFAS Denver Center did not direct installation personnel to meet the requirements for receipt and acceptance of these payments. The review showed that DFAS needs to develop a miscellaneous payment guide. The guide should explain the contract numbers, invoice numbers, and dates that are needed to properly support these payments. The guide should also explain what constitutes proper receipt and acceptance for these types of payments.

**Contract Numbers.** Most miscellaneous payments did not contain a contract number; only 17 payments had an obligation document number that was placed on the document by the contractor. A pseudo-contract number needed to be developed for entry into IAPS when payments were made using Air Force Form 616, "Fund Cite Authorization;" a direct fund citation; or a MORD. At the time of our review, this process was not standardized, making it difficult to determine whether the contract numbers being used were sufficiently controlled to prevent duplicate payments. DFAS should work with its customers to ensure that pseudo-contract numbers are properly established. Air Force personnel who contract for items or services or purchase goods using miscellaneous documents should provide the vendor with the contract number that should be included on the invoice to support the payment. This number should be included on the invoice, and should not be added after the invoice is submitted for payment.

**Proper Receipt and Acceptance.** Payments must not be made until the OPLOC ensures that a Government official acknowledges that goods or services were received and accepted. Our sample showed that 51 miscellaneous payments did not contain the name, address, title, and telephone number of the Government official authorizing these miscellaneous payments. The supporting documentation should give pertinent information on the Government officials to provide an audit trail for the payment process.

**Use of MORDS.** Installation activities were also issuing miscellaneous obligation documents that did not clearly define the item or service being purchased. As a result, payment clerks could not validate whether funds had been obligated for the items billed. Lack of this information also prevented managers from determining whether the MORD was being used correctly.

**Development of Desktop Guide.** The DFAS Denver Center needs to identify all payments made using other than a contractual document and determine the supporting documents necessary for payments. A desktop guide should be

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developed, outlining how each of these documents should be recorded in IAPS and what constitutes a valid payment. At a minimum, DFAS Denver Center personnel must ensure that they have a valid claim from a vendor or individual, a proper obligating document, and proper acknowledgement from a designated official that goods or services were received.

## Summary

DFAS Denver Center and Air Force managers need to address proper support for the payments they make to vendors. Although we noticed significant improvement at the DFAS Denver Center's OPLOCs, controls at other OPLOCs must be strengthened. For prompt payment, invoices received from vendors should meet all the requirements of a proper invoice. Invoices that fail to meet the standards should be immediately returned to the vendor for correction. Air Force activities should perform receipt and acceptance functions immediately upon delivery of goods or services and submit completed paperwork to the payment office. Documents used for receipt and acceptance should contain all requirements necessary for compliance with prompt payment or be returned for correction. Only the originating activity should alter documents supporting payments, and the documents should clearly state that the correction was made by that activity. Other activities should not be authorized to make corrections to payment documents. Contracting office personnel should write contracts that clearly provide all data needed for payment, including details of the items or services being purchased so that invoices and receiving reports can be validated. Miscellaneous payments require assurance that the items purchased are approved and received by the Air Force. A desktop guide should be developed to standardize support for payments within IAPS.

## Recommendations, Management Comments, and Audit Response

**Redirected and Renumbered Recommendations.** Based on management comments received from the Assistant Secretary of the Air Force (Financial Management and Comptroller) and the Deputy Director, Defense Finance and Accounting Service, we redirected Recommendation B.3.a. to the Under Secretary of Defense for Acquisition, Technology, and Logistics and renumbered Recommendation B.3.b. as B.4.a. and Recommendation B.3.c. as B.4.b.

**B.1. We recommend that the Under Secretary of Defense (Comptroller) amend DoD Regulation 7000.14-R, the "DoD Financial Management Regulation," volume 10, to fully comply with the Prompt Payment Act; Final Rule and standardize the rules for making properly supported miscellaneous payments.**

**Under Secretary of Defense (Comptroller) Comments.** The Under Secretary of Defense (Comptroller) nonconcurred with the recommendation, stating that

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DoD Regulation 7000.14-R, volume 10, cannot be changed until 5 Code of Federal Regulations Part 1315 is incorporated within the FAR. He also stated that guidance on miscellaneous payments will be assessed to ensure that it provides sufficient detail regarding the documentation required to make such payments.

**Audit Response.** Despite the nonconcurrence, comments from the Under Secretary of Defense (Comptroller) are responsive. The appropriate sequencing of the recommended action was never an issue. We recognize that DoD Regulation 7000.14-R, volume 10, cannot be changed until the FAR is revised. However, we urge the Office of the Under Secretary of Defense (Comptroller) to prepare now to avoid undue delay when amending DoD Regulation 7000.14-R, volume 10, to comply with the requirements reflected in the Prompt Payment Act; Final Rule. Likewise, the guidance for making miscellaneous payments should be reviewed and the necessary changes identified and made.

**B.2. We recommend that the Director, Defense Finance and Accounting Service Denver Center:**

**a. Rescind DFAS-DE 7010.2-R, “Commercial Transactions at Base Level,” and develop a desktop guide to facilitate compliance with DoD Regulation 7000.14-R, volume 10.**

**DFAS Comments.** DFAS partially concurred with the recommendation, stating that the regulation will remain in place until the DoD Regulation 7000.14-R, volume 10, is changed to incorporate the required FAR revisions. DFAS also stated that the DFAS Denver Center issued a standard vendor pay guide to facilitate compliance with the DoD guidance.

**Audit Response.** The DFAS comments are partially responsive. Multiple levels of guidance have caused significant confusion and problems for vendor payment clerks in processing payments. DFAS-DE 7010.2-R should be rescinded as soon as possible. The desktop guide should be useful in facilitating compliance with the DoD guidance. We request that DFAS in its response to the final report, state when DFAS-DE 7010.2-R will be rescinded.

**b. Return all invoices to vendors and receiving reports to activities that do not meet requirements for payment.**

**DFAS Comments.** DFAS concurred and stated that the new Standard Vendor Pay Guide, developed in April 2000, gives procedures for identifying and returning improper invoices and receiving reports for correction.

**Audit Response.** The DFAS comments are responsive. We have not yet assessed the new payment guide to determine whether established procedures are consistent with the FAR and the requirements of 5 Code of Federal Regulations Part 1315.

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**c. Develop stringent procedures for accepting invoice receipt dates. Procedures should ensure that the payment office can determine whether the designated billing office date-stamped an invoice.**

**DFAS Comments.** DFAS concurred in principle with the recommendation, stating that additional requirements for date-stamping invoices must be made within the FAR.

**Audit Response.** The DFAS comments are partially responsive. The FAR requires that the designated billing office immediately date-stamp all invoices upon receipt. Before making payment, DFAS must verify that the date stamp placed on an invoice was actually placed on the invoice by the designated billing office specified in the contract. The designated billing office should use a date stamp that identifies the organization or annotate that information on the invoice. Otherwise, DFAS should use the invoice date to determine the payment due date. We request that DFAS provide additional comments on the final report, explaining how DFAS will ensure that proper invoice receipt dates will be used for making payments.

**B.3. We recommend that the Under Secretary of Defense (Acquisition, Technology, and Logistics), in coordination with the Director, Defense Finance and Accounting Service Denver Center, and the Assistant Secretary of the Air Force (Financial Management and Comptroller), change the forms used as receiving reports to add the blocks necessary for receiving activities to comply with the Federal Acquisition Regulation.**

**Air Force Comments.** The Air Force partially concurred with the recommendation. The Air Force stated that most inspection and receiving forms are not under its control. However, the Air Force indicated that DD Form 250, "Material Inspection and Receiving Report," is being changed to make the form conform to the FAR. The Air Force stated that it will assess and consider a local format, which provides blocks for annotating receipt and acceptance, as well as identifying the telephone number, address, title, and printed name of the individual receiving and accepting the goods and services. The Air Force also stated that work continues on an automated solution, the Wide Area Workflow system.

**DFAS Comments.** DFAS concurred in principle with the recommendation, stating that the recommendation should be addressed to the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics. DFAS said it would coordinate with that office in ensuring that recommended improvements are made.

**Audit Response.** We redirected the recommendation based on comments from the Air Force and DFAS. We agree that the development of an automated solution is desirable. However, the Wide Area Workflow system is not a near-term solution. DFAS and the Air Force must continue to find ways to make it easier for ensuring that complete and accurate information is included in receiving reports. The use of a locally developed format that contains blocks for all required information should be aggressively pursued. DFAS and the



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Air Force should work with the Under Secretary of Defense for Acquisition, Technology, and Logistics to solve the problems with receiving reports until the automated solution can be implemented.

**B.4. We recommend that the Director, Defense Finance and Accounting Service Denver Center, in conjunction with the Assistant Secretary of the Air Force (Financial Management and Comptroller):**

**a. Work with the Air Force contracting community to ensure that all contracting documents provide the information needed to make proper payments, including:**

**(1) detailed identification of goods and services by contract line item number,**

**(2) clearly identified invoicing requirement,**

**(3) accurate Data Universal Numbering System numbers and Contractor Activity Government Entity codes, and**

**(4) directions to avoid sending invoices directly to installations unless the invoices require certification.**

**Air Force Comments.** The Assistant Secretary of the Air Force (Financial Management and Comptroller) partially concurred, stating that the Air Force financial management community will work with the contracting community to ensure that all contracting documents provide the information needed to make payments. The Air Force stated that field activities would be reminded to structure contract line item numbers to provide enough detail to assist in tracking deliveries and payments. The Air Force also stated that actions will be taken to ensure that invoicing requirements comply with the guidance established in the FAR, to clean up base-level vendor files at 113 activities to ensure the accuracy of DUNS numbers and CAGE codes, and to work with DFAS to include data in contractual documents, if necessary. However, the Air Force stated that the Office of the Secretary of Defense made a decision not to require the DUNS numbers in contractual documents and invoices because they are part of the CCR database. The Air Force further stated that it will work with DFAS to assess the inclusion of DUNS numbers in Air Force contracts issued by the Standard Procurement System and to assess whether it can effectively address DUNS numbers in legacy systems. Field activities will also be directed to send all invoices, except those requiring certification, directly to the paying office.

**DFAS Comments.** DFAS concurred in principle with the recommendations, stating that it will coordinate with the Air Force on recommended improvements.

**Audit Response.** The Air Force and DFAS comments were generally responsive to the recommendation. Use of DUNS numbers and CAGE codes

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are the primary method used by DFAS to verify EFT data. The Air Force and DFAS need to take steps to ensure that either a DUNS number or CAGE code is provided with every contract issued.

**b. Develop clear guidance on the use of Miscellaneous Obligation and Reimbursement Documents to ensure that they are used only when necessary.**

**Air Force Comments.** The Air Force did not comment on this recommendation in the draft report. Therefore, we request that the Air Force provide comments on the final report.

**DFAS Comments.** DFAS concurred in principle with the recommendation, stating that DFAS-DE 7010.2-R provides guidance on the proper use and preparation of Miscellaneous Obligation and Reimbursement Documents. DFAS stated that it will work with the Air Force to ensure compliance with the guidance.

**Audit Response.** The DFAS comments are partially responsive. The guidance in DFAS-DE 7010.2-R was not sufficient. Further, since Recommendation B.2.a. directs that DFAS-DE 7010.2-R be rescinded, DFAS and the Air Force must disseminate guidance on the proper use of Miscellaneous Obligation and Reimbursement Documents. We request that DFAS provide additional comments in response to the final report. We also request that the Air Force provide comments on this recommendation in response to the final report.

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## **C. Management Control Structure**

The DFAS Denver Center developed a standard business practice that improved segregation of duties and strengthened control of documents used to support vendor payments. However, controls were not sufficient to ensure that payments were properly supported or documents were controlled. Problems existed because:

- effective control and reviews of incoming documents had not been achieved,
- payment clerks did not always validate supporting documents before entering them into IAPS,
- certification officials did not detect improperly supported payments,
- high turnover among vendor payment personnel reduced experience levels at the OPLOCs, and
- internal assessments did not effectively analyze problems or ensure the implementation of proper corrective actions.

As a result, the DFAS Denver Center could not ensure that improperly supported and erroneous payments would be detected and corrected before payment.

### **Development of Standard Business Practice**

Reviews of vendor payment operations by the GAO and the Air Force Audit Agency in 1998 identified material management control weaknesses. To address these control problems, the DFAS Denver Center developed a management control structure at the vendor payment offices that segregated vendor payment duties and improved document control within the OPLOCs. These changes were necessary because most payments were made in a paper environment that required extensive controls. The new structure improved mailroom operations, established a document control section, and divided payment teams into task-related branches responsible for entering specific data or processing specific functions in IAPS. See Appendix F for a detailed explanation of each section in this structure. The DFAS Denver Center flowcharted the vendor payment process to identify key internal controls and developed extensive operational reviews to oversee the payment process. Systematic controls were developed in IAPS to support the new structure (see Finding A). DFAS Denver Center managers also directed monthly voucher reviews and implemented a management tool for detecting potential duplicate payments to better oversee the payment process.

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**Positive Control Over Incoming Documentation.** The DFAS Denver Center needed to fully establish document control. Document control was most important starting from a document's receipt in the mailroom until its entry into IAPS. Before vendor payment documents were entered into IAPS, the OPLOCs had limited control, and on some occasions documents were misrouted or lost within the OPLOC. The OPLOCs were also inconsistent in receiving, date-stamping, and routing documents within their vendor payment operations sections. To correct these problems, the structure established new mailroom procedures and created a document control section for vendor payment operations.

**Mailroom Operations.** OPLOCs did not always properly implement the mailroom portion of document control, as directed by the DFAS Denver Center. Appendix F outlines the mailroom requirements. Reviews at eight OPLOCs showed that the mailrooms received and date-stamped incoming documents, but did not maintain positive control over the documents until document control technicians could pick them up. At OPLOC Europe, the mailroom operations were not in a secure location. At the other OPLOCs, the date-stamped mail was placed in unsecured bins or locations for pickup. This allowed anyone to add, alter, or remove documents before they were properly entered in IAPS. At these locations, we were able to remove and copy documents without detection. At four of the eight OPLOCs reviewed, incoming facsimiles, including invoices and receiving reports, were not controlled in the mailroom. Instead, incoming facsimiles were received from machines located in the vendor payment offices. This bypassed the new document control structure and could result in incorrect date-stamping of documents used to support vendor payments and increased risk of lost documentation. Documents date-stamped by several mailrooms did not clearly identify the OPLOC as the location of stamping; in some cases, the date-stamp was changed before daily mailroom processing was completed. This violated the intent of date-stamping documents on the date received and identifying the location that received the documentation. The DFAS Denver Center needs to enforce a standard business practice that maintains positive control over all incoming documents, using a secured mailroom as the entry point for these documents. All documents should be date-stamped on the business day they are received in the OPLOC.

**Document Control Section.** Although the document control section had improved the flow of documents within the OPLOCs, they did not have positive control over vendor payment documents to prevent missing and lost documentation and detect improper invoices and receiving reports. The effectiveness of this section depends on how well its employees track, screen, and control documents within an OPLOC from receipt until the documents are matched to a voucher for payment.

**Tracking Documents.** A major problem was the inability to properly track documents sent from the document control section to the accounts payable teams for entry into IAPS. The DFAS Denver Center had not developed a standard method of tracking all incoming documents until the documents were entered into IAPS and paid or returned to the originator for correction. OPLOCs had attempted to implement these controls, but the efforts

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were incomplete and inconsistent. For example, the San Antonio OPLOC was testing a bar-coding process that tracked contract folders within the OPLOC. Although this process allowed visibility over the contract files, the bar coding did not track individual invoices and receiving reports. Limitations of the software may prevent bar coding from effectively controlling all vendor payment documents. To test controls over documents, we obtained 10 invoices at each OPLOC and traced them through the process. At the San Bernardino OPLOC, San Bernardino, California, we were able to locate all the documents entered into IAPS, the documents were either at a clerk's desk or had been returned to the vendor within 48 hours. At two OPLOCs, an invoice that was received in the OPLOC mailroom was lost before it could be entered into IAPS. To locate documents at several other sites, document control employees had to search the OPLOC for documents that had not been entered into IAPS within 48 hours of receipt. The Denver OPLOC developed a document control program that tracked the status of invoices and receiving reports received in the document control section and sent to the vendor payment section for processing. Although entering the documents was time-consuming, it provided document control at the OPLOC. DFAS Denver Center should implement this process at all OPLOCs until a more automated process is available for use.

**Screening Documents.** The OPLOCs had not developed an effective and efficient means of identifying improper invoices and receiving reports. Our review at the OPLOCs showed that employees were conducting cursory reviews and did not check incoming invoices and receiving reports for all the required information. Further, detailed screenings were not always performed by document control employees, but were performed several days later by the accounts payable technicians. Reviews in the document control section consisted of determining whether a document was an invoice or receiving report; contained a contract number and amount; and was not a billing statement, credit card payment, or credit invoice. As discussed in Finding B, invoices and receiving reports that did not meet the standards of the PPA or other guidance needed to be returned within 7 days. To be effective, the document control section must be staffed with experienced clerks who can determine whether all incoming documents are proper and return them to the required activity when necessary. Because documents were not screened completely, the potential existed that payments would be delayed and accrue interest when errors were discovered later in the payment process by payment or certification clerks. The DFAS Denver Center should establish a document control section at each OPLOC that makes vendor payments using IAPS. The document control section should be staffed with experienced employees who can determine whether payment documentation is proper and ensure that documents are received in time to properly support payments.

**Controlling Documents.** Documents were not properly maintained in the payment folders. During our visits to eight document control sections, we noticed large numbers of payment documents that were loosely maintained in payment folders or not properly matched to folders. This caused documents to become detached from the payment folders and be lost before a payment could be made, resulting in the need to obtain duplicate documentation

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in order to make payments. OPLOC managers must develop procedures to ensure that when documents are received and processed in IAPS, they are properly secured within the payment folder until the payments are made.

**Payment Processing.** The other major change in the new vendor payment structure was the segregation of data entry to prevent a single employee from entering all payment information. The DFAS Denver Center implemented a system change that limited individual access for entering data into IAPS, as described in Finding A. This change also required the OPLOCs to assign the remaining vendor payment employees to perform data entry for specific items. Under the new structure, different clerks were required to enter obligation data (obligation section), enter invoices and receiving reports (accounts payable section), and add or correct the EFT and remittance information (reports and reconciliation section). An additional clerk from the certification section was required to certify the voucher payment. However, the clerks did not have the capability to change any data within IAPS. A detailed description of the functions of each section can be found in Appendix F.

**Obligation Section.** Reviews at various OPLOCs showed that the obligation section did not always ensure that all line items in the contract and other information they received interfaced correctly with IAPS. For example, an invoice was scheduled for payment that should have included accrued interest, but did not. Review of this obligation record in IAPS showed that the obligation section either did not validate the contract interface with IAPS correctly, or the prompt payment indicator was incorrectly changed by the obligation section to exempt the payment from earning interest. In another case, for a contract containing multiple line items, only one line item was entered into IAPS. This made it difficult for vendor payment clerks to validate invoices and receiving reports during entry. The obligation section also did not always screen miscellaneous documents to ensure that they were being used for the correct purpose and contained all the information necessary to identify what was being purchased.

**Accounts Payable Section.** The vendor payment team validated invoices and receiving reports against the contract and each other and, if valid, entered pertinent data into IAPS for payment. If inconsistencies in the contract were found, the team prepared a letter identifying the problem that prevented payment and returned the document to its originator. Managers informed us that documents were lost before they were entered into IAPS and also between the time they were entered into IAPS and the time they were sent to the certification section for payment. Observations in several OPLOCs showed that many loose documents and payment folders were being maintained at clerks' desks and not returned to the document control section after documents had been entered into IAPS. A reasonableness standard needs to be established for the time needed to enter an invoice or receiving report into IAPS after it is received at an OPLOC. A similar standard should apply to the amount of time a payment folder is held by payment clerks. OPLOC managers needed to establish these measurable standards to ensure that documents were being entered promptly and folders were being returned to the document control section to decrease the potential for lost documents.

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Observation of the invoice and receipt entry process showed that clerks did not verify all necessary items before entering an invoice or receiving report for payment. Clerks seldom questioned discrepancies in payment documents or validated the items on invoices and receiving reports with the requirements on the corresponding contract and with other documents. Payment clerks seldom questioned handwritten alterations to payment documents. They accepted these altered documents without determining who made the alterations and why. Clerks who entered invoices into the system did not always verify that the line items billed on an invoice matched the contract. For instance, at the Dayton OPLOC, one clerk did not look at the contract while processing an invoice into the system; the clerk made sure that enough money was in the system to pay the invoice. He stated that he checked the contract only if there was a conflict or apparent errors. Finding B discussed inconsistencies in invoices that did not match the contracts. These problems occurred because clerks processed invoices without closely reviewing contract documents. In addition, clerks did not always ensure that vendors were paid using EFT or that the information in the CEFT database was current. At the Denver OPLOC, two valid payments to the same vendor used separate obligation documents and were paid by both EFT and check. This occurred because payment clerks had not checked the CEFT to determine whether the vendor was registered in CCR and should have received an EFT payment.

**Reports and Reconciliation.** One of the functions of this section is to accomplish changes to remittance addresses and EFT information in IAPS. The section also performs report and analysis functions within the OPLOC. (A detailed explanation of the functions is in Appendix F.) During our reviews of the OPLOCs, we determined that current procedures for a remittance address change subjects the Government to making improper payments. Checks should be remitted only to the address that was identified in the contract and verified in the CCR. A change to a remittance address should not be based on an invoice unless it is validated with the vendor and the contracting office. For example, an invoice was received at the Denver OPLOC for payment on a contract, and a new remittance address was shown on the invoice. The OPLOC originally voided the payment because the remittance address did not match the contract. The voided payment was sent to the reports and reconciliation section, which changed the remittance address to the address on the invoice, and the payment was made. Research showed that the payment was sent to a company that had purchased the company shown on the contract; however, no contract modification had occurred, and the payment should not have been sent to the new remittance address. In addition, the new company was not registered in CCR; therefore, the OPLOC could not validate that the remittance address on the invoice was valid. DFAS should implement procedures to ensure that remittance addresses can only be changed based on information in the CCR.

**Obtaining Proper Receiving Reports.** A major reason for interest payments was the inability of OPLOCs to obtain receiving reports from installations. During our visit to the eight OPLOCs, we reviewed the process for obtaining receiving reports. Observations of the process showed inconsistencies in the effort the OPLOCs and their installations made to obtain missing receiving reports for invoices on IAPS Report, "TQ-79 Invoices not Scheduled for Payment." A review of 10 invoices judgmentally selected from each OPLOC

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report showed that Air Force activities did not always submit receiving reports to OPLOCs in a timely manner, or failed to comply with the requirement for prompt payment. The following problems were found.

- Contractors often partially shipped the items contracted for from various warehouses and invoiced each shipment separately. Contractors also shipped partial orders based on when the contract line items were available for shipment. When partial shipments arrived, the receiving activities were required to submit receiving reports unless the contract specified that partial shipment or partial payment were not authorized. The review showed instances where activities withheld receiving reports until they received all contract line items and submitted a single receiving report for the multiple invoices. By withholding a receiving report until the full contract is shipped and submitting one receiving report with a single receipt date, the activity circumvents the prompt payment process. This procedure may deny the contractor prompt payment on invoices for earlier shipments, or may deny the contractor proper interest payments for late payment on earlier shipments.
- Receivers used the date they signed the receiving report as the date of receipt of goods and services, although goods were received several months earlier. For example, the 65th Contracting Squadron, McGuire Air Force Base, New Jersey, was asked for a receiving report for eight invoices received between September and November 1999. The activity faxed a receiving report to the OPLOC, showing the receipt of goods on January 24, 2000. The contract showed an expected delivery date of November 30, 1999. When questioned, the receiving activity submitted a corrected receiving report with a valid receipt date of November 23, 1999. By submitting the original receiving report, the activity would have deprived the vendor of more than \$60 in interest.
- When OPLOC personnel contacted receivers to obtain receiving reports, the contacts were often ignored. For instance, a San Bernardino OPLOC technician telephoned an activity to request a receiving report on an invoice that was more than 30 days old. The individual told the OPLOC technician that the goods had not been received. When we made a followup call, the individual provided the receiving report for payment.
- Discussions with FSO personnel showed that no extensive followup was conducted to obtain receiving documents from activities. At Offutt Air Force Base, Nebraska, the "Requests for Receiving Reports" generated by IAPS were sent to the FSO, but the FSO did not follow up to determine whether the activity submitted a report.



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- The IAPS Report was not user-friendly because it was difficult for installations to determine which invoices needed action. The report should clearly identify the invoices that installations need to resolve to prevent interest payments.

Several of the situations noted above resulted in the untimely payment of vendors or deprived vendors of required interest payments. DFAS and Air Force financial managers need to work together to ensure that the receipt of goods and services is recorded accurately as part of the payment process. Resolving unpaid invoices should be a joint effort that is monitored closely to prevent potential problems with prompt payment. The San Bernardino OPLOC had developed a process in its document control section that assisted the FSOs in obtaining receiving reports. They also followed up with the FSOs to ensure that invoices were paid properly. This process should be reviewed by management and implemented throughout the IAPS network.

**Certification Section.** At the eight OPLOCs we visited, personnel in the certification section did not always closely review the documents supporting vendor payments to ensure that they were proper. A reasonableness test of receipt and acceptance should be developed. Most contracts provided an expected delivery date, and clerks needed to question whether receiving reports should be entered into IAPS with dates well after a reasonable delivery date. For example, OPLOC Limestone, Limestone, Maine, received 30 unpaid invoices valued at more than \$2 million on a contract for computers that were shipped and delivered to various Air Combat Command bases in November 1999. When the contracting office at Langley Air Force Base, Virginia, was contacted on January 24, 2000, the contracting officer informed us that the user did not know a receiving report was needed. The user contacted the 30 activities to ensure that the shipments were received and provided a receiving report which stated that all goods were received on February 11, 2000. The receiving report should have provided exact receipt and acceptance dates at each location for entry into IAPS, not a single date for the entire contract. This practice deprived the vendor of almost \$18,000 in interest penalties required by the PPA.

Certification clerks also did not always check CEFT information to ensure that payments were sent to the correct location. Although certification officials identified errors in the payment processes, as shown by the significant number of voided vouchers, errors were not being corrected before payments were made. For example, the Denver OPLOC received invoices from a health club that was not the vendor identified in the contract. The invoices were also for annual fees instead of a monthly fee, as required by the contract. Instead of returning the invoices to the vendor or correcting the problems, the OPLOC adjusted the remittance address and certified and paid the invoices. Further review showed that a contract modification was required, and no payments should have been made until the contract modification was received.

**Summary of the Management Control Structure.** The DFAS Denver Center improved the segregation of duties by establishing a new vendor payment structure and limiting access to IAPS. However, additional actions are needed to ensure that documents in the OPLOC are properly controlled, information in

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IAPS is correct and properly supported, and vendors are paid promptly. Continued emphasis needs to be placed on assuring that supporting documents comply with all requirements. If proper invoices, receiving reports, and obligation documents have not been received, the documents need to be promptly returned to originators and proper documentation requested. The document control section should be responsible for initiating these actions so that vendor payments are not delayed unnecessarily. The document control section should also follow up when receiving reports are missing. Pay technicians should ensure the reasonableness of dates on receiving reports when significant differences exist between the expected delivery dates and the dates of receipt and acceptance. The certification section must ensure that all payments are accurate, proper, and legal. To maintain proper segregation, DFAS should ensure that no single individual can enter or direct the entry of all data needed to make payments. Therefore, key data entry points should remain under the direct supervision of separate individuals. Until electronic media are fully implemented, DFAS should improve controls over supporting documents by tracking the location of all documents that support vendor payments until the payments are made.

## **Staffing**

Ensuring that vendor payments are properly made depends on high-quality, trained staff. A major concern expressed by OPLOC managers was the frequent loss of experienced vendor payment clerks because of the low grade structure. Most OPLOCs were staffed with employees at the GS-3 to GS-6 grade level. One OPLOC director stated that turnover within vendor pay was 35 percent annually. Under the current structure, very few opportunities for advancement to mid-level positions (GS-7 to GS-11) existed within vendor payment operations. This lack of promotion potential has resulted in the constant turnover of the work force. The Director, DFAS Denver Center, stated that implementation of the existing control structure had increased costs by about 15 percent. The document control section should have enough knowledgeable personnel to ensure that documents supporting payments are analyzed early in the process to minimize late payments. DFAS should continually reevaluate the staffing requirements and levels of experience needed to perform duties using a standard business practice for making proper vendor payments and maintaining control over paper documents, as the process is moved to electronic media.

## **Management Oversight**

The DFAS Denver Center had developed management tools for evaluating whether proper payments were being made from their payment offices. Problems with supporting vendor payments were consistently reported since January 1999 by DFAS Denver Center teams that performed operational reviews at the OPLOCs and by performance assessment personnel at the OPLOC. Despite considerable management attention, vendor pay operations had not significantly improved. The lack of significant progress in correcting

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and preventing problems in vendor payments was attributable to insufficient followup. The DFAS Denver Center needed to further analyze the management tools to properly identify root causes and implement needed corrective actions.

**Voucher Review.** In December 1998, the DFAS Denver Center required monthly reviews of payment vouchers by OPLOCs. The purpose of these reviews was to determine whether the payments were supported properly and identified problem areas. We examined the implementation of these reviews at each OPLOC we visited. The lack of standard checklists prevented reviews from being implemented effectively. Each OPLOC used a different standard to evaluate the propriety of payments. The lack of consistent reviews made comparison of data impractical. Further, the causes of errors were not analyzed and trends were not evaluated for corrective actions. A standard review guide should be developed and used so that consistent results can be reported to DFAS Denver Center to develop the corrective actions necessary to make properly supported payments.

**Predator Application.** Between October 1, 1999, and January 31, 2000, \$4 million in duplicate or erroneous payments was identified and prevented. DFAS Denver Center personnel developed and implemented a computer application, Predator, that reviews all scheduled vendor payments for potential duplication. The program identifies potential duplicate or erroneous payments that require immediate research. If these payments are determined to be improper, they are voided from the system before a check or EFT payment is sent to a vendor. By preventing these payments, the DFAS Denver Center reduces the amount of time an OPLOC must spend researching and collecting improper payments from vendors, and reduces the number of checks returned by vendors. Further benefits can be achieved if the root causes of the potential duplicate payments are identified and analyzed by OPLOC personnel and monitored by the DFAS Denver Center. Although some OPLOCs had begun identifying and analyzing the causes, an overall program for management review and analysis of corrective actions had not been established.

## **Assessment of Management Controls Over Vendor Payments**

The DFAS Denver Center took numerous actions to improve controls over vendor payments in response to the material weaknesses in management controls identified in reviews performed in 1997 and 1998 at the request of Senator Grassley, and in 1998 and 1999 by the Air Force Audit Agency. However, controls were not sufficient to ensure proper vendor payments and full compliance with the PPA. The operational reviews completed by the DFAS Denver Center and the voucher reviews performed by OPLOC personnel since April 1999 continue to report problems in making vendor payments. We identified a material management control weakness in supporting vendor payments and in restricting IAPS access.

The DFAS Denver Center officials reported vendor payment deficiencies as a material management control weakness in its FY 1998 Annual Statement of Assurance and developed procedures to correct the deficiencies. The DFAS

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Denver Center reported in its FY 1999 Annual Statement of Assurance that this material management control weakness had been corrected. We do not agree that the material management control weakness has been corrected. Until corrective actions are taken and the results of operational and voucher reviews confirm that the management control weakness has been corrected, the DFAS Denver Center should report the problems in supporting vendor payments and controlling IAPS access as a material management control weakness.

## **Recommendations, Management Comments, and Audit Reponeses**

**Deleted and Renumbered Recommendations.** Based on management comments, we deleted draft Recommendation C.2. Draft Recommendation C.1. has been renumbered as Recommendation C.

**C. We recommend that the Director, Defense Finance and Accounting Service Denver Center:**

**1. Establish at each operating location that makes vendor payments using the Integrated Accounts Payable System:**

**a. A secure mailroom that ensures the proper receipt and date stamping of all incoming vendor payment documents.**

**DFAS Comments.** DFAS concurred in principle with the recommendation, stating that the standard organizational structure for all DFAS Denver Center OPLOCs requires a secure mailroom that receives and date-stamps all vendor pay documents.

**Audit Response.** The DFAS comments are partially responsive. Guidance was issued requiring a secure mailroom operation and positive control of documents; however, the DFAS Denver Center and DFAS Indianapolis Center OPLOCs did not fully comply with the requirements. Mail that was date-stamped was not positively controlled until it was entered into IAPS. At some OPLOCs, mail was left unsecured awaiting pickup by document control technicians, and facsimiles of vendor payment documents were received outside the mailroom. We request that DFAS provide additional explanation of planned corrective actions.

**b. A document control section with an experienced staff capable of determining whether obligating documents, invoices, and receiving reports meet the requirements in 5 Code of Federal Regulations Part 1315, "Prompt Payment; Final Rule," and the Federal Acquisition Regulation.**

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**DFAS Comments.** DFAS concurred with the recommendation. In June and July 2000, DFAS will test a new vendor pay organizational structure that requires a reorganized document control section capable of determining whether vendor pay documents are proper.

**Audit Response.** The DFAS comments are responsive. At the request of the Director, DFAS Denver Center, we will assess the new vendor pay organizational structure in July 2000.

**c. A mechanism for tracking invoices, receiving reports, and obligating documents from receipt by the operating location to payment.**

**DFAS Comments.** DFAS nonconcurred with the recommendation. DFAS stated that IAPS provides a followup process for missing invoices, receiving reports and contractual obligations interfaced into IAPS. DFAS stated that additional control procedures would be time-consuming and add little value.

**Audit Response.** The DFAS comments are not responsive. The DFAS comments do not take into account the number of documents that arrive in the OPLOC and are lost or misplaced before they are entered into IAPS. The IAPS followup reports depend entirely on the data in IAPS. Documents that have not been entered into IAPS are not visible to OPLOC personnel. Vendors and installation-level personnel considered lost and misplaced documents a major issue. The DFAS Denver OPLOC had developed an effective means for tracking documents that support vendor payments. We request that DFAS reconsider its position on the recommendation and provide additional comments on the final report.

**2. Develop procedures to ensure that when documents are received and processed in the Integrated Accounts Payable System, they are properly secured in payment folders until the payments are made.**

**DFAS Comments.** DFAS concurred with the recommendation and stated that the document control section will be responsible for the voucher assembly process under the new vendor pay organizational structure.

**Audit Response.** The DFAS comments are partially responsive. The voucher assembly process must ensure that all documents are properly secured in payment folders. For this process to work as intended, all vendor payment documents must be received in the mailroom. The procedures to be followed during the voucher assembly process also needed to be documented. We will assess the voucher assembly process during our evaluation of the new vendor pay organizational structure.

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**3. Issue desk procedures that identify what constitutes proper obligating documents, invoices, and receiving reports, and emphasize the importance of promptly returning improper documents to the source and entering only appropriate payment data.**

**DFAS Comments.** DFAS concurred with the recommendation and stated that on April 14, 2000, the DFAS Denver Center issued a new desktop guide for processing vendor payments.

**Audit Response.** The DFAS comments are partially responsive. Our review of the desktop guide showed that it significantly improved the guidance on making vendor payments. However, the guide references DFAS-DE 7010.2-R as the primary source of guidance for determining what constitutes a proper invoice and receiving report. The primary source of guidance should be DoD Regulation 7000.14-R, volume 10. In revising the guide, DFAS should also take into account changes being developed to bring DoD Regulation 7000.14-R, volume 10, into compliance with 5 Code of Federal Regulations Part 1315.

**4. Develop standard business practices for resolving invoices that are not scheduled for payment and for obtaining missing documentation.**

**DFAS Comments.** DFAS concurred with the recommendation and stated that a standard report is used to track the status of invoices received that are not scheduled for payment. DFAS is evaluating several tools for improving the usefulness of the report to the Air Force. The best tool will be standardized for use across the network.

**Air Force Comments.** The Air Force provided unsolicited comments on the recommendation. The Air Force agreed that until the Wide Area Workflow system is implemented, a standard is needed for resolving invoices not scheduled for payment. The Air Force supported using a more useful version of the DFAS Denver Center standard report. The Air Force will also direct that a means be developed to track progress in providing receiving reports.

**Audit Response.** Because the Air Force said it will direct that a means be developed to track progress in providing receiving reports, the DFAS comments are responsive.

**5. Review the grade structure and staffing levels within vendor payment offices to ensure that each section has individuals qualified to perform assigned tasks.**

**DFAS Comments.** DFAS concurred in principle with the recommendation. DFAS stated that a change in grade structure would not ensure a quality workforce. The use of advanced technology in systems applications and electronic commerce was viewed as the preferred means to increase productivity, reduce errors, and maintain internal controls.

**Audit Response.** DFAS comments are generally responsive.

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**6. Implement management tools to detect control weaknesses in the payment process. When weaknesses are detected, develop corrective actions to prevent future occurrences. The management tools should include:**

**a. A standard review guide for accomplishing the 200-voucher review that gives consistent, useful results for assessing improvements in making vendor payments.**

**DFAS Comments.** DFAS concurred with the recommendation. The DFAS Denver Center will reissue guidance to clarify the guidance for performing and assessing the results of the 200-voucher review.

**Audit Response.** The DFAS comments are generally responsive. DFAS should analyze the results reported by all OPLOCs to identify the types of errors that are occurring and, in conjunction with Air Force customers, develop corrective actions to prevent the errors from reoccurring. Despite commendable efforts by the OPLOCs to develop refresher training, the same types of errors were reported. The reissued guidance should include a determination as to whether vendor payments are supported by proper invoices and receiving reports and should require the identification of root causes for problems.

**b. An analysis of the root causes of duplicate and erroneous payments identified by the Predator application.**

**DFAS Comments.** DFAS concurred with the recommendation and stated that a detailed analysis was being conducted on each potentially duplicate payment. Vendor pay personnel are required to determine the causes of erroneous transactions and identify corrective actions. DFAS stated that compliance would be validated through operational reviews.

**Audit Response.** The DFAS comments are partially responsive. The Predator application provides DFAS with an excellent tool for identifying potential duplicate payments. However, at the time of the audit, the causes of the duplicate payments were not always identified and shared with other DFAS OPLOCs that made vendor payments using IAPS. Generally, duplicate and erroneous payments indicate that problems exist in the documentation supporting the payments.

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**7. Report as a material management control weakness the ability of individuals to gain unauthorized access to the Integrated Accounts Payable System, the ability to remove invoices from the system without maintaining audit trails, and problems in supporting vendor payments.**

**DFAS Comments.** DFAS partially concurred with the recommendation. DFAS concurred with reporting the ability of individuals to gain unauthorized access to IAPS as a material weakness. The DFAS Denver Center submitted a system change request to prevent individuals from gaining unauthorized access. However, DFAS did not agree that removing invoices from IAPS and problems in supporting vendor payments were material weaknesses. DFAS stated that the DFAS Denver Center requires a log to be maintained for all improper invoices and receiving reports that are returned. DFAS acknowledged that having IAPS track invoices and receiving reports that are removed from IAPS was a desirable improvement. The DFAS Denver Center will develop a system change request to create a report that identifies invoices and receiving reports removed from IAPS. DFAS stated that the issues in supporting vendor payments are improving compliance and enforcement by DFAS and the Air Force.

**Audit Response.** The DFAS comments are partially responsive. We consider as a material weakness a control environment that allows individuals to gain unauthorized access to IAPS, remove invoices from IAPS, and make improperly supported payments. The explicit Congressional interest in these problems is also a factor to be considered in determining materiality for Management Control Program reporting purposes. Until the control environment is improved, the DFAS Denver Center should report vendor pay problems as a material management control weaknesses. We request that DFAS reconsider its position and provide additional comments on the final report.



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## Appendix A. Audit Process

### Scope

**Work Performed.** We evaluated the controls associated with IAPS and its computation of vendor payments. We reviewed the procedures that the DFAS OPLOCs used to make vendor payments for Air Force customers. During FY 1999, 1.2 million vendor payments, valued at \$16.5 billion, were made using IAPS. We reviewed a random sample of 240 of the 306,939 payments made from April 1 through June 30, 1999. We considered the organizational and system changes made by the DFAS Denver Center since September 1998. We also reviewed the effectiveness of the management control program as it related to Air Force vendor payments.

**DoD-Wide Corporate-Level Government Performance and Results Act Goals.** In response to the Government Performance and Results Act, the Secretary of Defense establishes DoD-wide corporate-level goals, subordinate performance goals, and performance measures. This report pertains to achievement of the following goal, subordinate performance goal, and performance measures.

- **FY 2001 Corporate-Level Goal 2:** Prepare now for an uncertain future by pursuing a focused modernization effort that maintains U.S. qualitative superiority in key warfighting capabilities. Transform the force by exploiting the revolution in military affairs, and reengineer the Department to achieve a 21st century infrastructure. **(01-DoD-2)**
- **FY 2001 Subordinate Performance Goal 2.5:** Improve DoD financial and information management. **(01-DoD-2.5)**
- **FY 2001 Performance Measure 2.5.1:** Reduce the number of noncompliant accounting and finance systems. **(01-DoD-2.5.1)**
- **FY 2001 Performance Measure 2.5.2:** Achieve unqualified opinions on financial statements. **(01-DoD-2.5.2)**
- **FY 2001 Performance Measure 2.5.3:** Qualitative assessment of reforming information technology management. **(01-DoD-2.5.3)**

**DoD Functional Area Reform Goals.** Most DoD functional areas have also established performance improvement reform objectives and goals. This report pertains to achievement of the following functional area objectives and goals.

- **Financial Management Area. Objective:** Reengineer DoD business practices. **Goal:** Standardize, reduce, clarify, and reissue financial management policies. **(FM-4.1)**

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- **Financial Management Area. Objective:** Strengthen internal controls. **Goal:** Improve compliance with the Federal Managers' Financial Integrity Act. **(FM-5.3)**
  - **Information Technology Management Area. Objective:** Ensure DoD vital information resources are secure and protected. **Goal:** Assess information assurance posture of DoD operational systems. **(ITM-4.4)**

**General Accounting Office High-Risk Area.** GAO identified several high-risk areas in the DoD. This report provides coverage of the Defense Financial Management and Information Management and Technology high-risk areas.

## Methodology

To assess controls over access to IAPS, we reviewed system access lists, compared the access levels of employees to their job positions, observed system access by users, and discussed procedures for controlling and changing passwords with systems personnel.

From data files obtained from the DFAS Denver Center, we randomly selected 240 vendor payments made using IAPS from April 1 through June 30, 1999. Ten DFAS OPLOCs made vendor payments using IAPS. From October 1999 through February 2000, we reviewed the support for the vendor payments at those OPLOCs to determine whether payments were properly authorized, approved, and supported. We reviewed operations at the DFAS Denver Center OPLOCs in Dayton; Denver; Limestone; Omaha, Nebraska; and San Bernardino. We also reviewed vendor payments and operations at the OPLOCs in Orlando and European OPLOCs. Both OPLOCs were assigned to the DFAS Indianapolis Center, Indianapolis, Indiana. We obtained assistance in reviewing support for vendor payments from the Air Force Audit Agency at the San Antonio OPLOC, San Antonio, Texas; Honolulu OPLOC, Honolulu, Hawaii; and the DFAS Japan OPLOC, Yokota Air Base, Japan. At the San Antonio OPLOC, the Air Force Audit Agency also reviewed the procedures and controls over vendor payment operations.

At the paying offices in the 10 OPLOCs, we reviewed obligation documents, invoices, receiving reports, and payment vouchers. We compared payment vouchers to source documents to determine whether payments were properly supported, were for the correct amount, were forwarded to the correct vendor and address, cited proper appropriation data, used the correct invoice date, and were properly certified. We also reviewed guidance for making vendor payments and compared the guidance issued by DFAS and the DFAS Denver Center with guidance in OMB Circular No. A-125, "Prompt Payment," December 12, 1989; 5 Code of Federal Regulations Part 1315, "Prompt Payment; Final Rule," September 29, 1999; the Federal Acquisition Regulation; and DoD Regulation 7000.14-R, the "DoD Financial Management Regulation," volume 10, "Contract Payment Policy and Procedures," November 1999. We contacted and visited receiving activities to determine whether they received the

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goods and services for which payments had been made. We also contacted vendors to determine the status of invoices and whether payments had been received.

We assessed improvements in vendor payment operations by assessing the guidance issued and the actions taken by the DFAS Denver Center, the OPLOCs, and the Air Force in response to prior reviews and audit reports. We held discussions with key DFAS Denver Center personnel and Air Force financial managers. We also determined the actions taken to resolve older unpaid invoices by judgmentally selecting 10 invoices from listings of unpaid invoices at 8 OPLOCs. We determined the status of the invoices, identified problems that delayed the payment of the invoices, and for those invoices that were paid as of the date of our visit, we reviewed documents supporting the payments.

**Use of Computer-Processed Data.** Although we relied on computer-processed data from IAPS, we did not evaluate the adequacy of the system's general and application controls. Air Force Audit Agency Report No. 96054010, "General and Application Controls Within the Integrated Accounts Payable System," August 1, 1996, states that IAPS controls generally ensured adequate support for transactions, effective use of system edits, and proper control over software maintenance. However, IAPS did not meet Federal financial management system requirements for transaction-driven, double-entry accounting, and DFAS personnel did not control access to the system. We established data reliability by comparing data output to source documents. Our tests disclosed that the data were sufficiently reliable to support the audit conclusions and recommendations.

**Audit Type, Dates, and Standards.** We performed this financial-related audit from July 1999 through April 2000 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. Accordingly, we included tests of management controls considered necessary.

**Contacts During the Audit.** We visited or contacted individuals and organizations within DoD. Further details are available on request.

## Management Control Program

DoD Directive 5010.38, "Management Control Program," August 26, 1996, requires DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the management controls.

**Scope of Review of the Management Control Program.** We reviewed the adequacy of management controls over vendor payments made using IAPS. Specifically, we reviewed management controls over vendor payments at the DFAS Denver Center and its OPLOCs, as well as at two DFAS Indianapolis Center OPLOCs. We also reviewed management's self-evaluation of those controls.

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**Adequacy of Management Controls.** We identified a material management control weakness as defined by DoD Instruction 5010.40, "Management Control Program Procedures," August 28, 1996. The DFAS controls over IAPS and the processing of vendor payments were not adequate to ensure that all payments were properly supported and valid. Recommendations A.1., A.2., A.3., B.1., B.2., B.3., B.4., and C.1 through 6, if implemented, will improve controls over vendor payments. A copy of the report will be provided to the senior official in charge of management controls in DFAS.

**Adequacy of Management's Self-Evaluation.** The DFAS Denver Center identified vendor payments as an assessable unit and, in our opinion, correctly identified the risk associated with vendor payments as high. DFAS Denver Center officials reported vendor payment deficiencies as an overall material management control weakness in the FY 1998 Annual Statement of Assurance and developed procedures to correct the weakness. Although the actions taken by the DFAS Denver Center improved management controls, controls were not sufficient to ensure proper vendor payments and full compliance with the PPA. The DFAS Denver Center reported in its FY 1999 Annual Statement of Assurance that the previously reported material management control weakness in the vendor pay area had been corrected. We disagree with the FY 1999 Annual Statement of Assurance. The material management control weakness identified in the FY 1999 Annual Statement of Assurance is the same problem identified in this report. Recommendation C.7. is also needed to ensure full disclosure of material control weaknesses in this area.

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## **Appendix B. Summary of Prior Coverage**

During the last 5 years, GAO; the Inspector General, DoD; and the Air Force Audit Agency have issued several audit reports discussing issues related to vendor payments.

### **General Accounting Office**

Report No. GAO/AIMD-00-10 (OSD Case No. 1919), "Increased Attention Needed to Prevent Billions in Improper Payments," October 29, 1999.

Report No. GAO/AIMD-98-274 (OSD Case No. 1687), "Improvements Needed in Air Force Vendor Payment Systems and Controls," September 28, 1998.

Report No. GAO/OSI-98-15 (OSD Case No. 1687-A), "Fraud by an Air Force Contracting Official," September 23, 1998.

### **Inspector General, DoD**

Report No. 99-233, "General Controls for the General Accounting and Finance Systems," August 17, 1999.

Report No. 96-030, "Vendor Payments at Defense Accounting Offices," November 30, 1995.

### **Air Force**

Report No. 98054032, "Internal Controls Over Purchases of Goods and Services," February 23, 2000.

Report No. 96054010, "General and Application Controls Within the Integrated Accounts Payable System," August 1, 1996.

Report No. 95064012, "Internal Controls Over the Payment Authorization Process for Installation-Level Supplies and Service Contracts," August 30, 1995.

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## Appendix C. Statistical Sampling Methodology

### Sampling Plan

**Sampling Purpose.** The purpose of the statistical sampling plan was to estimate the number of vendor payments that did not have proper documentation by type of payment and type of document. The statistical sampling plan was also used to estimate the number of invalid payments, once it was determined that a payment was not properly supported. The payments were reviewed to determine whether documentation was adequate and complied with the Prompt Payment Act.

**Universe Represented.** The DFAS Denver Center provided a database of vendor payments made using IAPS from April 1 through June 30, 1999. The file contained records on 306,939 vendor payments. The total dollar value of the vendor payments in the population was unknown because some of the OPLOCs made payments in currencies other than U.S. dollars.

**Sampling Design.** The sampling design used to determine whether or not the vendor payments had proper documentation was a stratified attribute design. We divided the population into three strata: payments valued at less than \$1,000, payments valued at least \$1,000 but less than \$1 million, and payments valued at \$1 million or more. In payments where the U.S. dollar value of foreign currency could be determined, the payment was placed in the appropriate strata. In payments where the U.S. dollar value of foreign currency could not be determined, it was left in the stratum it was assigned to based on the dollar value of the foreign currency. We randomly selected a total of 240 payments: 100 from the first stratum, 80 from the second stratum, and 60 from the third stratum.

### Sampling Results

**Sample Results.** Table C-1 identifies the statistical estimates of vendor payments that were not properly supported by type of payment.

<b>Table C-1. Payments Not Properly Supported (99-Percent Confidence Level)</b>			
Type of Payment	Lower Bound	Point Estimate	Upper Bound
Contractual	53,338	79,009	104,631
Miscellaneous	69,057	96,922	124,786

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We are 99-percent confident that from 53,338 to 104,631 contractual vendor payments were not properly supported. Also, we are 99-percent confident that from 569,057 to 124,786 miscellaneous vendor payments were not properly supported.

Table C-2 identifies the statistical estimates of contractual vendor payments that were not properly supported by document type.

<b>Table C-2. Contractual Payments Not Properly Supported By Document Type (99-Percent Confidence Level)</b>			
Type of Document	Lower Bound	Point Estimate	Upper Bound
Invoices	16,201	35,590	54,978
Receiving Reports	47,157	71,778	96,399
Contracts	(2,604)	5,291	13,186
Invalid Payments	8,395	25,017	41,638

We are 99-percent confident that from 16,201 to 54,978 vendor payments were not properly supported due to improper invoices. We are 99-percent confident that from 47,157 to 96,399 vendor payments were not properly supported due to improper receiving reports. Also, we are 99-percent confident that from 8,395 to 41,638 payments were not properly supported and should not have been made to the vendors. The estimates of vendor payments that were not properly supported by contract passes through zero; therefore, the estimate for contracts is not considered significantly different than zero and will not be used in the report.

Each of the individual estimates is projected at the 99-percent confidence level; therefore, the group's overall confidence level for all 5 estimates simultaneously is approximately 95 percent.

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## Appendix D. Integrated Accounts Payable System Access Levels

Systems Change Request No. 136-98-00 was implemented in IAPS on August 4, 1999. The system change aligned access levels to correspond with the DFAS Denver Center's separation of responsibilities within vendor payment offices and establishment of additional levels of access for ANG personnel. The system change increased the number of access levels from 4 to 10. The following is a description of each access level.

**Inquiry Access (Level 05).** This access level allows users to view a limited number of IAPS screens. Users cannot update data on any of the screens.

**Reserved Access (Level 06).** This access level allows ANG users unrestricted access to IAPS. A clerk with this access can input commitments, obligations, vendor data, invoices, and receiving reports.

**Clerk I & R Access (Level 07).** This access level allows users to enter information about invoices and receiving reports. Users can also view other screens, but cannot update them. Justification is required for users outside of the accounts payable section to have this access.

**Obligations Access (Level 08).** This access level allows users to establish and change obligation information in IAPS. Users can also view other screens, but cannot update them. Only obligation section personnel at the OPLOCs should have this access.

**Clerk-FSO Access (Level 09).** This access level allows users to set up commitments and input information on non-stock fund receiving reports. Only individuals at the FSO who regularly update IAPS should have this access.

**Clerk-Recon Access (Level 10).** This access level allows users to change and add records to correct the IAPS database. However, users can view only the vendor and invoice screens. Only reports and reconciliation section personnel should have this access.

**Sub-Supervisor Access (Level 30).** This access level allows users to change EFT and remittance information. Users have no access to information on obligations, invoices, and receiving reports. Only personnel in the reports and reconciliation section should have this access.

**Supervisor Access (Level 50).** This access level gives users access to non-accounts payable functions. Users can update contract comments screens.



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**Systems Admin Access (Level 63).** This access level allows users to lock and unlock technical identifications and passwords. This access level does not have update access to account payable functions. Only system personnel should have access.

**VP Access (Level 70).** This access level allows users to update access and security records. Users cannot access the accounts payable functions. Only the Chief of Vendor Payment Operations should have this access.

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## Appendix E. Guidance on Supporting Documentation

The principal guidance used for making payments to vendors was the PPA, as outlined in OMB Circular No. A-125, "Prompt Payment," December 12, 1989. OMB Circular No. A-125 was rescinded and replaced by 5 Code of Federal Regulations Part 1315, "Prompt Payment; Final Rule," on September 29, 1999. The supporting documentation requirements were further defined for DoD in FAR Subpart 32.9, "Prompt Payment," and DoD FAR Supplement Subpart 32.9, "Prompt Payment." For DoD financial managers, the guidance was incorporated into DoD Regulation 7000.14-R, volume 10, "Contract Payment Policy and Procedures," November 1999. The DFAS Denver Center issued further guidance in DFAS-DE 7010.2R, "Commercial Transactions at Base Level," January 31, 1996, and "Vendor Pay Payment Processing Desktop Guide," May 1999. These documents did not always agree on what must be included in a proper invoice, receiving report, and contract.

**Invoice Requirements.** In most respects, the Federal Acquisition Regulation; DoD Regulation 7000.14-R, volume 10; and DFAS Denver Center guidance were in agreement with OMB Circular No. A-125. However, some information in DoD Regulation 7000.14-R, volume 10, and the DFAS Denver guidance conflicted with OMB guidance. Specifically:

- DoD Regulation 7000.14-R, volume 10, allows exceptions to the OMB requirements for a valid invoice. The Regulation states that it is not necessary for an invoice to be free of defects in order for it to be proper and create a valid demand on the Government; the approving activity determines whether a valid demand exists.
- The DFAS Denver Center guidance contains a section on acceptable alterations that reads, "Improper alterations include, but are not limited to, use of white out, taping, and cutting and pasting. A proper revision to a hard copy document is made by drawing a line (that does not obliterate the data) through the incorrect information, and adding the correct information."

Further, because the paragraph in DoD Regulation 7000.14-R, volume 10, allowed invoices that may not have been free of defects to be considered valid, and the DFAS Denver guidance allowed some alterations, several invoices in the sample were considered improper. For example, contract numbers were added or changed by OPLOCs because this was considered a small error that could be easily corrected, and invoices without "remit to" addresses were paid because the contract contained a "remit to" address. Some invoices were paid without invoice dates; the OPLOC created the invoice date. OMB guidance states that the following correct information constitutes a proper invoice and is required as payment documentation:

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- Name of contractor and invoice date (contractors are encouraged to date invoices as close as possible to the date of mailing or transmission). DFAS Denver Center guidance agrees that both of these are requirements, but gives alternatives if the vendor does not include the invoice date.
  - Contract number or other authorization for delivery of property or services (assignment of an invoice number by the contractor is recommended). Neither DFAS Denver Center guidance nor DoD Regulation 7000.14-R, volume 10, states whether an invoice number is needed. DFAS Denver Center guidance states what should be done if the vendor did not include an invoice number. The FAR states that an invoice number is strongly encouraged.
  - Description, price, and quantity of property and services actually delivered or rendered.
  - Shipping and payment terms.
  - Other substantiating documentation or information, as required by the contract.
  - Name (where practicable), title, telephone number, and complete mailing address of responsible official to whom the payment is to be sent.

The OMB guidance also states that the invoice receipt date is “the date that a proper invoice is actually received by the designated billing office if the agency annotates the invoice with the date of receipt at the time of receipt; or . . . the date placed on the invoice by the contractor, in any case in which the agency fails to annotate the invoice with the date of receipt at the time of receipt (such an invoice must be a proper invoice).”

During the audit, 5 Code of Federal Regulations Part 1315 was issued. The items that were not included in OMB Circular No. A-125 were:

- Vendor invoice number, account number, and any other identifying number agreed to in the contract (this was highly recommended in OMB Circular No. A-125, but not required).
- Tax identification number, unless agency procedures provide otherwise.
- Banking information, unless agency procedures provide otherwise, or except in situations where the EFT requirement is waived under 31 Code of Federal Regulations Part 208.4.

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**Requirements for Receiving Reports.** In addition to previously identified guidance, the Vice Chief of Staff of the Air Force issued a memorandum dated March 29, 1999, listing the items that are mandatory for a proper receiving report. OMB Circular No. A-125 states that:

the following information from the receiving report is required as documentation:

- (1) Contract or other authorization number;
- (2) Product or service description;
- (3) Quantities received, if applicable;
- (4) Date(s) property or services delivered and accepted; and
- (5) Signature (or electronic alternative when supported by appropriate internal controls), printed name, title, telephone number, and mailing address of the receiving official.

The DFAS Denver Center guidance contains one exception to these rules: for the receipt and acceptance requirement, only the receipt block on the DD Form 250 needs to be completed. On several items in the sample, the receipt block was completed, but not the acceptance block.

**Contract Requirements.** The OMB guidance states that “the following information from the contract is required as payment documentation: A notation that partial payments were prohibited in the contract, if applicable.”

Other requirements of a valid contract include:

- a signed original contract or other authorization document against which payment is being made;
- specifics of items or services being purchased;
- specific payment terms;
- a DUNS number and/or CAGE code;
- no pen and ink changes; and
- a “remit to” address for non-EFT payments.

Some problems arose with contracts because they did not contain a DUNS number or CAGE code, one of which needed to locate EFT information for payment in the CEFT database. Some contracts did not include a “remit to” address; because the contracts directed the Government to use the contracting

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address or to “remit to address as invoiced,” the address could not be checked for correctness. Also, some contracts did not describe the items or services being purchased, or the descriptions were vague.

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## Appendix F. Structure of Vendor Payment Office

**Mailroom Functions.** All mail and incoming facsimile message traffic should be received and date-stamped in the mailroom of each OPLOC. When these functions occur outside the vendor payment office, a single entry point is established for incoming documents. OPLOCs were directed to move all facsimile machines that receive vendor payment information to the mailroom. The mailroom was to date-stamp all documents upon receipt and provide the documents to pay technicians in the document control section for distribution.

**Document Control Section.** A document control section was established within the vendor payment office to maintain positive control over all vendor payment documents received from the mailroom. This section receives all incoming documents from the mailroom, places them in the contract or obligation folders, and sends them to the accounts payable teams for payment processing. When the payment documents have been processed, they are stored in the document control section until they are assembled as part of a voucher and sent to the certification section for payment. If properly established, the document control section controls the flow of documents within the OPLOC and screens all invoices and receiving reports. This section was to review each document received and return any defective documents within 7 days of receipt.

**Obligations Section.** Personnel in the obligation section verify the automated interface of contract information, or enter in IAPS the obligations for miscellaneous payments and contracts that are not in the automated system. If errors are noted in the automated interfaces, the clerk makes the required adjustments to the payment record in the original contract. If information is missing, they contact the contracting office to obtain the correct information and have it entered into IAPS. For miscellaneous documents, they validate the obligation document and establish the obligation in IAPS. Once properly obligated, obligations section personnel send to the document control section a payment folder that is either stamped to indicate that the contract is located in the Electronic Document Access system, or contains the obligation document. When invoices and receiving reports arrive in the document control section, they are placed in the payment folders and sent to a payment team for entry into IAPS.

**Reports and Reconciliation Section.** This section is responsible for correcting information in a vendor's file, such as EFT and remittance information. If a clerk determines that an invoice does not match the EFT or remittance information in IAPS, the clerk sends the documentation to the responsible pay team for correction. Under DFAS guidance, EFT information in IAPS and the invoice were compared with what information is in the CEFT. If a discrepancy was found, IAPS information was to be updated to reflect the information in the CEFT. If the information on the invoice differs from that entered into CEFT, the vendor was contacted to resolve the difference, and the payment was suspended until corrected. For payments made by check, the remittance address

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on the invoice was compared with the contract. If the remittance address was different, DFAS Denver Center guidance allowed a change to the address on the invoice unless the contract specifically identified a remittance address.

**Accounts Payable Section.** This section comprises vendor payment teams that validate invoices and receiving reports against the contract or other obligating documents; if the contracts are valid, the teams enter pertinent data into IAPS for payment.

**Certification Section.** This section is required to validate that payments to be made are proper. Personnel in the certification section should be experienced vendor payment technicians who know and will enforce all requirements for a valid payment. They should validate all supporting documents and ensure that the information in IAPS is accurate before certifying that the payment is legal, valid, and proper. Payments that do not meet standards should be voided. Manual payments are to be approved by the Chief of Vendor Payment before being sent to the certification section. Certifying officials should balance the Voucher Control Log and the Unpaid Voucher Report against the original vouchers.

**Customer Service Section.** This section responds to questions and concerns from Air Force customers and vendors, and processes rejected EFTs and returned checks.

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## **Appendix G. Report Distribution**

### **Office of the Secretary of Defense**

Under Secretary of Defense for Acquisition, Technology, and Logistics  
Director, Defense Logistics Studies Information Exchange  
Under Secretary of Defense (Comptroller)  
Deputy Chief Financial Officer  
Deputy Comptroller (Program/Budget)  
Assistant Secretary of Defense (Command, Control, Communications and Intelligence)

### **Department of the Army**

Auditor General, Department of the Army

### **Department of the Navy**

Naval Inspector General  
Auditor General, Department of the Navy

### **Department of the Air Force**

Assistant Secretary of the Air Force (Financial Management and Comptroller)  
Auditor General, Department of the Air Force  
Director, Air National Guard

### **Defense Organizations**

Director, Defense Contract Audit Agency  
Director, Defense Contract Management Agency  
Director, Defense Finance and Accounting Service  
Director, Defense Finance and Accounting Service Denver Center  
Director, Defense Finance and Accounting Service Indianapolis Center  
Director, Defense Logistics Agency  
Director, Defense Security Assistance Agency  
Director, National Security Agency  
Inspector General, National Security Agency  
Inspector General, Defense Intelligence Agency



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## **Non-Defense Federal Organizations and Individuals**

Office of Management and Budget  
General Accounting Office  
National Security and International Affairs Division  
Technical Information Center

## **Congressional Committees and Subcommittees, Chairman and Ranking Minority Member**

Senate Committee on Appropriations  
Senate Subcommittee on Defense, Committee on Appropriations  
Senate Committee on Armed Services  
Senate Committee on Governmental Affairs  
Senate Subcommittee on Administrative Oversight and the Courts,  
Committee on the Judiciary  
House Committee on Appropriations  
House Subcommittee on Defense, Committee on Appropriations  
House Committee on Armed Services  
House Committee on Government Reform  
House Subcommittee on Government Management, Information, and Technology,  
Committee on Government Reform  
House Subcommittee on National Security, Veterans Affairs, and International  
Relations, Committee on Government Reform

# Under Secretary of Defense (Comptroller) Comments



COMPTROLLER

UNDER SECRETARY OF DEFENSE  
1100 DEFENSE PENTAGON  
WASHINGTON, DC 20301-1100

MAY 18 2000



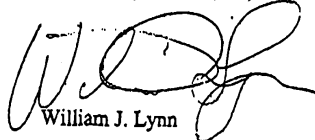
MEMORANDUM FOR DIRECTOR, FINANCE AND ACCOUNTING,  
INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Office of the Inspector General, DoD (OIG,DoD) Audit Report, "Controls Over the Integrated Accounts Payable System" (Project No. D2000FI-0081)

I nonconcur with recommendation B.1. of the subject report. That recommendation asks the Under Secretary of Defense (Comptroller) to amend the DoD Financial Management Regulation ("DoDFMR") (DoD 7000.14-R) guidance in Volume 10, Chapter 7, "Prompt Payment Act," to comply with Title 5, Code of Federal Regulations, part 1315 (5 CFR 1315), "Prompt Payment." The "DoDFMR" guidance cannot be changed until 5 CFR 1315 is incorporated into the Federal Acquisition Regulation (FAR) 32.9, "Prompt Payment."

Additional comments to the report findings are included in the attachment. In addition, Volume 10, Chapter 12, "Miscellaneous Payments," of the "DoDFMR" will be assessed to ensure that the guidance provides sufficient detail regarding the documentation required to make such payments.

My staff points of contact in this matter are Mr. Tom Summers and Ms. Melanie Willis. Mr. Summers and Ms. Willis may be reached by e-mail: [summerst@osd.pentagon.mil](mailto:summerst@osd.pentagon.mil) or [willism@osd.pentagon.mil](mailto:willism@osd.pentagon.mil), respectively, or by telephone at (703) 602-0300.



William J. Lynn

Attachment

OFFICE OF THE UNDER SECRETARY OF DEFENSE (COMPTROLLER)  
COMMENTS ON DOD INSPECTOR GENERAL DRAFT AUDIT REPORT  
CONTROLS OVER THE INTEGRATED ACCOUNTS PAYABLE SYSTEM  
(PROJECT NO. D2000FI-0081)

General Comments

Page 12

On page 10 of the report, the statement is made that contractual payments frequently were not supported by documents that complied with the Prompt Pay Act (PPA). In fact, the report indicates that the problems identified in the report relate to some, but not all, requirements of regulations and procedures that implement the PPA. Accordingly, it is recommended that the first sentence of the first paragraph of Part B of the Report "Documentation Supporting Vendor Payments" be revised to read "Contractual payments were frequently not supported by documents that complied with some of the regulatory requirements promulgated pursuant to the provisions of the PPA."

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The first bullet on page 10 of the report in Part B ("Documentation Supporting Vendor Payments") states that "DoD guidance on supporting documentation conflicted with the requirements in the Office of Management and Budget (OMB) guidance and the Federal Acquisition Regulation (FAR)." The reference to the FAR should be deleted. Paragraph 070201 of Chapter 7, Volume 10 of the "DoDFMR" states that "if there is a discrepancy between the FAR (FAR and DFARS) and this regulation, the FAR takes precedence." As for a conflict with the OMB guidance, as indicated in the draft OIG, DoD report, some, but certainly not all, of the DoD guidance "conflicts" with that of the OMB. In addition, it seems that, although the "DoDFMR" provisions do not contain all of the OMB's current guidance, the only real "conflict" with the OMB guidance is that the "DoDFMR" does not contain all of the OMB's current guidance at Title 5, Code of Federal Regulations, Part 1315. That guidance, in fact, was not applicable to the OIG, DoD sample as it was published subsequent to the dates of the invoices selected by the auditors for review. Accordingly, to make it clear both that only some provisions are being referred to and that the "conflict" is more in the nature of timing, it is suggested that the first bullet on page 10, be amended to read, "Some DoD guidance on supporting documentation does not reflect all of the latest requirements contained in the Office of Management and Budget (OMB) guidance recently published at 5 CFR 1315."

Page 12

With respect to the concern, cited in the draft audit report, that the Defense Finance and Accounting Service (DFAS)-Denver Center personnel were issuing desk procedure guidance that was inconsistent with the underlying "DoDFMR" guidance, the Department currently is undertaking a total review of DFAS Center and other financial guidance with the goal either of eliminating duplications or of incorporating necessary supplemental guidance into the "DoDFMR." In the current environment, there exists multiple sources of, duplication of, and inconsistencies in, financial management policy. These basic problems result in confusion on many levels within the Department's financial community. As currently envisioned, the consolidation project will be accomplished over a period of approximately 30 months. The process will include a

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thorough review of all financial management guidance published at the DFAS Centers and Operating Locations, the Military Departments, and the Defense Logistics Agency. Guidance that is inconsistent or duplicative will be eliminated, and guidance that is common among the organizations will be merged and formatted for incorporation into the main body of the "DoDFMR." System-specific guidance that cannot be merged because of different operating systems will be streamlined and formatted for incorporation into the "DoDFMR," as system-specific appendices. It is anticipated that this effort, upon completion, will result in a consistent application of departmental guidance within the DoD financial community.

Attachment to Memo,  
OIG DoD Draft Report,  
Project No. D2000FI-0081

# Department of the Air Force Comments



Office of the Assistant Secretary

## DEPARTMENT OF THE AIR FORCE

WASHINGTON, DC 20330

15 MAY 2000

### MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING, OFFICE OF THE INSPECTOR GENERAL

FROM: SAFFM

SUBJECT: DoDIG Draft Report, Controls Over the Integrated Accounts Payable System,  
(Project No. D2000FI-0081), (Old Code 9FI-5019)

This is in reply to your memorandum requesting Assistant Secretary of the Air Force (Financial Management and Comptroller) to provide Air Force Comments on subject report.

Regarding your draft audit on Controls over the Integrated Accounts Payable System. The draft identifies a number of problems with supporting documentation that we need to address. However, I believe that the draft, and particularly the Executive Summary, does not fairly portray the current state of the Air Force vendor payment process. Below I note a number of specific concerns about the draft audit and request that changes be made. We are also attaching comments that specifically address each of your audit findings that relate to the Air Force. A number of your findings and recommendations are addressed to the Defense Finance and Accounting Service (DFAS). I understand that DFAS will provide you separate comments, and I have focused primarily on the Air Force findings.

#### Findings about Erroneous, Improper, and Fraudulent Payments Are Misleading:

a. All three findings in the Executive Summary suggest that there are large numbers of erroneous, improper, and fraudulent vendor payments being made. Based on a sample of 240 items from payments made during the period April 1 to June 30, 1999, the draft audit concludes that 176,000 of the 306,939 contract and miscellaneous payments were not properly supported. The draft then finds that IAPS "remained vulnerable to fraudulent or improper payments" (Finding A) and that "Air Force customers had limited assurance that proper payments were made" (Finding B).

b. These findings are not consistent with other audits. During the past two years the Air Force Audit Agency (AFAA) has examined a large sample of vendor payments in connection with their CFO audits. In its most recent audit the agency sampled 1,564 vendor payments covering all of FY99. The AFAA audit, like yours, identified problems with supporting documentation. But when AFAA auditors traced the sampled disbursements to their source, they found no evidence of fraud and only a tiny percentage of payments that were erroneous (5 of 1,564 or 0.3%). This percentage was clearly immaterial. The AFAA reached similar conclusions in its FY98 audit.

c. In addition, as you know, DFAS and the Air Force have made significant changes in procedures for handling vendor payments aimed at reducing the chance of fraud. These changes include stricter controls on access to IAPS and better separation of duties at DFAS locations.

d. Based on the extensive AFAA audits, coupled with new controls, I believe that the Air Force can have confidence that the vast majority of our payments are proper. I ask that you note the results of the FY99 AFAA audit in your draft, including in the Executive Summary. I also ask that you recast all three findings in the Executive Summary to note only the improper documentation that was the focus of your audit and avoid any suggestion that there are significant numbers of improper, erroneous, or fraudulent payments.

Conclusions about Prompt Payment Act Problems May Be Overstated for the following reasons:

a. Your draft audit concludes that individuals were able to circumvent payment of interest to vendors, as required by the Prompt Payment Act, and recommends that this situation be reported as a material weakness. Yet the audit only identifies two instances from a sample of 240 where interest penalties were not properly paid. Moreover, the Air Force is certainly paying a substantial amount of interest penalties. Our interest penalty payments are currently about \$400,000 a month, up from \$175,000 prior to implementation of the new DFAS control procedures noted above.

b. Rather than a pervasive problem, I believe the evidence in the draft audit suggests a few cases of individual non-compliance that we need to address. I ask that you modify the Executive Summary and the appropriate sections of the report to reflect this interpretation.

Findings About IAPS Access Do Not Reflect Recent Limitations. Your draft audit notes that the Air Force has not significantly reduced the number of personnel who have access to IAPS and suggests this is a problem. However, your report does not take into account major changes in the nature of Air Force access. Prior to August 1998, most Air Force personnel with access to IAPS could update almost all information in the system. Since that time they can only read information, update commitments (but not legally binding obligations), and provide receiving report information. I believe these new limits balance the need to grant access to IAPS information with the need for better controls. I ask that you highlight these changes in access and consider them in reaching your findings.

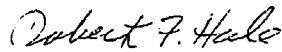
Findings Correctly Identify Need for Better Documentation. Your audit rightly concludes that we need better supporting documentation for IAPS transactions, particularly receiving reports in the case of the Air Force. The long-term solution to the receiving report problem is installation of the Wide Area Workflow system, which will have edit checks that insure key information is entered. In the interim we will consider issuing a standard form that includes all blocks required to comply with the Federal Acquisition Regulations. The attached specific comments also address other areas where we concur, or concur in part, with the findings of the audit and will work to make changes.

Final  
Report  
Reference

Revised

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Conclusion: While we work to make necessary changes, I ask that you consider my requests carefully, particularly those that relate to the Executive Summary since most people will only read that portion of the document. I look forward to working with you to ensure that the final version of this audit is balanced in its presentation.



ROBERT F. HALE  
Assistant Secretary of the Air Force  
(Financial Management and Comptroller)

Attachment:  
Responses to Recommendations

#### **Responses to Recommendations**

1. **Recommendation A.2.a:** Reduce the number of individuals granted authority to update information in the integrated Accounts Payable system (IAPS) at the installation level considering the organization responsibilities of users and the frequency of use.

**Management Comments:** Concur in part. The number of individuals granted authority to update information in IAPS is determined by those with the responsibility in their job description. This will vary by installation and related workload. Local management is given the flexibility to assign users based on organizational needs.

In August 1998, 946 installation-level personnel had access to IAPS and could update virtually any information (commitments, obligations, invoice data, receiving reports and "remit to" addresses). Since August 1998, the AF has changed the types of access installation-level personnel have to IAPS; they can no longer update obligation nor invoice information, "remit to" addresses and administrative data. As a result, the remaining 938 installation-level personnel with IAPS access may view contract or payment status, update commitment and update receiving report information. Allowing funds managers outside the installation-level Comptroller office the opportunity to monitor the status of their specific contracts in the accounting system (through inquiry capability) enhances, rather than degrades, effective control.

Inactive users are currently denied access after 60 days of non-use. DFAS-DE/FT will direct IAPS security reports will be viewed monthly. All IAPS users, other than Inquiry Level (05), with inactive accounts will be deleted after 60 days on inactivity. All Inquiry Level (05) users will be deleted after 120 days of inactivity.

**Estimated Completion Date:** August 2000.

2. **Recommendation A.2.b:** Remove access to the Integrated Accounts payable System from the Rome Laboratories for establishing obligations within the Integrated Accounts Payable System.

**Management Comments:** Concur in principle. SAF/FM will re-validate the requirement for Rome Laboratories to establish



Final Report  
Reference

Redirected and  
Renumbered as  
Recommendation  
B.3.

obligations in the Integrated Accounts Payable System (IAPS) and if no longer valid, move the workload to the Operating location (OPLOC).

**Estimated Completion Date:** June 30, 2001

3. **Comments to B.3:** Implementation of Wide Area Workflow (WAWF), receipt and acceptance, could resolve or avoid most of the errors or shortcomings described in the report.

4. **Recommendation B.3.a:** Develop and implement a receiving document that provides the blocks necessary for the receiving activity to comply with the Federal Acquisition Regulation. Since most inspection and receiving forms are DD Forms or Standard Forms and not under control of the Air Force, the final report should direct this recommendation to the appropriate office in OSD (recommend USD(AT&L)).

**SAF/FM/AQC Management Comments:** Partially Concur. There are currently a number of forms used to validate receipt of goods and services, which lack blocks for required mandatory information as stated in the FAR, such as "telephone number" for the receiving official. For example, the DD Form 250 is one of the forms used by all Services in DoD. Per SAF/AQC, a change to the DD Form 250 is presently in process at the DAR Council under the OSD. The change is "to confirm the DD Form 250, blocks 21A and B, to the requirements of FAR 32.905(f)(5) and (6). As an interim, SAF/FM will assess and consider using a local format such as that developed at San Bernardino OPLOC which provides blocks for receipt, acceptance, telephone number, address and printed name and title. AF will also work towards Wide Area Workflow (WAWF) as an automated solution.

**Estimated Completion Date:** SAF/AQC - 30 November 2000 working with the DAR council to update existing forms. SAF/FM - 1 August 2000 for locally developed form (possibly San Bernardino's); date unknown for final implementation of WAWF.

5. **Recommendation B.3.b.1:** Work with the Air Force contracting community to ensure that all contracting documents provide the information needed to make proper payments, including: (1) detailed identification of goods and service by contract line number.

**SAF/AQC Management Comments:** Concur in principle. The Air Force will take appropriate action to remind field activities that

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Recommendation  
B.4.a.1.

they must structure Contract Line Identification Numbers (CLINs) on contracts in accordance with instructions at DFARS 204.71, "Uniform Contract Line Item Numbering System," which addresses the discreet identification of supplies or services. We will also remind the field that CLINs should be descriptive enough to assist in the trackability of deliveries and payments.

**Estimated Completion Date:** 30 June 2000

6. **Recommendation B.3.b.2:** Work with the Air Force contracting community to clearly identify invoicing requirements

**SAF/AQC Management Comments:** Concur in principle. The Air Force has consistently followed the current requirements for invoices at Federal Acquisition Regulation (FAR) 32.905(e), by including the standard contract clause at FAR 52.232-25, "Prompt Payment," dated December 1997. This clause includes requirements for the invoice which had been established prior to the recent revision of the requirements at 5 Code of Federal Regulations (C.F.R.) 1315. This clause did not require, but "strongly encouraged," the contractor to assign an identification number to each invoice. A change to the FAR is currently being processed by GSA to address the revised invoice requirements, and will be published soon. When the revisions are incorporated into the FAR, the Air Force will follow them by including the revised standard contract clause at FAR 52.232-25.

**Estimated Completion Date:** Upon publication of the FAR change.

7. **Recommendation B.3.b.3:** Work with the Air Force contracting community to ensure that all contracting documents provide accurate Data Universal Numbering System numbers and Contractor Activity Government Entity Codes.

**SAF/AQC Management Comments:** Concur in principle. Regarding the use of accurate DUNS numbers and CAGE codes, the Air Force notes there was an OSD decision not to require the DUNS number as part of the contractual documents and invoices when the Central Contractor Registration (CCR) system was adopted in June 1998, since both the DUNS number and the CAGE code are included in the CCR database. The Air Force is working with the Defense Finance and Accounting Service to assess the inclusion of DUNS on AF contracts issued by the Standard Procurement System (SPS). We will also assess whether we can effectively address DUNS in the legacy systems, as we migrate to SPS. Additionally, SAF/AQC

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Recommendation  
B.4.a.2.

Renumbered as  
Recommendation  
B.4.a.3.

Final Report  
Reference

Renumbered as  
Recommendation  
B.4.a.4.

Renumbered as  
Recommendation  
C-4.

has an ongoing initiative to clean up base-level vendor files at 113 activities to ensure accuracy of DUNS and CAGE codes.

**Estimated Completion Date:** 30 November 2000

8. **Recommendations B.3.b.4:** Work with the Air Force contracting community to ensure that all contracting documents provide direction to avoid sending invoices directly to installations, unless the invoice requires certification.

**SAF/AQC Management Comments:** Concur. SAF/AQ will work with the Air Force Accounting and Finance Office to advise the field that all invoices, except those requiring government certification, must be sent directly to the paying offices. Also, both offices will work together to ensure that changes to original invoices requiring certification are clear, legible, and identify who the parties are when they are initialed.

**Estimated Completion Date:** 31 July 2000

9. **Recommendation C.1.d.:** We recommend that the Director, Defense Finance and Accounting Service Denver Center develop a standard for resolving invoices that are not scheduled for payment and develop a standard business practice for obtaining missing documentation.

**DFAS Management Comments.** Concur in principle. The Integrated Accounts Payable System (IAPS) currently produces a standard product, PCN-TQ-79 - Invoices Not Scheduled For Payment. The auditors identified a product developed at the San Bernardino OPLOC that sorts this product for distribution by Site-ID. This allows distribution of the product to the Financial Services Offices (FSOs). We will review the San Bernardino product along with similar products in use at other OPLOCs and distribute the best product to all OPLOCs using IAPS for vendor payments.

**Estimated Completion Date:** June 30 2000.

**SAF/FM Management Comments:** Concur. The standard business practice should be the Wide Area Workflow (WAWF) system. As an interim step, DFAS option developed by the San Bernardino OPLOC for the TQ 79 report, Invoices not Scheduled for Payment, will make the process more workable. Further, the SAF/FM will direct MAJCOM metrics to measure progress.

**Estimated Completion Date:** August 2000

Deleted

10. **Recommendation C.2:** Recommend the Assistant Secretary of the Air Force (Financial Management and Comptroller) report as a material weakness the ability for receiving activities to circumvent the Prompt Payment Act by submitting inaccurate and untimely receiving reports.

**SAF/FM Management Comments:** Non-concur. While this DoD IG report shows internal control problems with receiving report documentation, neither the FY 1998 nor FY 1999 CFO audit revealed materiel weaknesses in the disbursing process.

The AF has taken a number of steps to improve the receiving report process. In March 1999, the AF Vice Chief of Staff provided a memorandum to all MAJCOM CVs emphasizing the importance of proper receiving report completion. In addition, a receiving report training module is posted to both the SAF/AQ and FM websites. Finally, the AF is actively pursuing implementation of the receiving report module of Wide Area WorkFlow (WAWF).

We do not believe there is sufficient evidence that circumventing the prompt payment Act and denying interest payments to vendors is a material weakness. Between FY 98 and FY 99 the total AF interest payments on DFAS-DE paid invoices rose from \$3.5 million to over \$5.2 million. In addition, there is recourse for a vendor who feels he was deprived an interest payment. Both the DoD regulation 7000.14, Volume 10, "Contract Payment Policy and Procedures," and 5 US Code of Federal regulations, part 1315, "Prompt Payment; Final Rule" allow for a vendor to challenge the payment and receive up to double the amount of the original penalty (up to \$5,000). There was no evidence, which indicated widespread need or use of this remedy.

We will, however, continue to emphasize the need for receiving activities to provide receiving and acceptance information to the OPLOC as goods and services are received. In addition, through the Quality Assurance program we will monitor the TQ-79 listing to avoid undue delay in payments to vendors.

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# Defense Finance and Accounting Service Comments



## DEFENSE FINANCE AND ACCOUNTING SERVICE

1931 JEFFERSON DAVIS HIGHWAY  
ARLINGTON, VA 22240-5291

MAY 15 2000

MEMORANDUM FOR DIRECTOR, FINANCE AND ACCOUNTING DIRECTORATE,  
OFFICE OF THE INSPECTOR GENERAL, DEPARTMENT OF  
DEFENSE

SUBJECT: Response to Draft Audit Report on Controls Over the Integrated Accounts  
Payable System (Project No. D2000FI-0081)

Attached is our response to the subject audit conducted at the Denver Center and  
Operating Locations.

We would like to thank the audit team for their recognition of the progress we have  
made to improve our processing and strengthen the internal controls. We appreciate the  
professionalism of the auditors and their assistance in identifying areas where our continued  
focus is needed.

If you have questions, my point of contact is Jim Cornell (703) 607-5129.

  
Bruce M. Carnes  
Deputy Director

Attachment:  
As stated

**DFAS Comments on DoDIG Draft Audit Report**  
**“Controls Over the Integrated Accounts Payable System”**  
**Project Number: D2000FI-0081 (formerly Project No. 9FI-5019)**

**1. General Comments:**

Though we have made significant improvements in internal control compliance, we agree that DFAS has more work to do. However, most of the substance of this report is based on a very detailed examination of supporting payment documents containing minor administrative defects that did not affect the validity or the accuracy of the payments made. No distinction was made in the discussion of improperly supported payments between minor administrative errors and the availability of the data required to make a correct entitlement determination. Demand for zero defects in supporting documentation leads to greatly increased costs to the Department for rework, reduced quality of service to our Departmental customers and unnecessary late payments to vendors and contractors. Our standard of performance should be based on achieving reasonable assurance that our payments are proper, not perfect assurance. We must recognize that the costs of an absolute standard are simply unaffordable.

**2. Comments to Report Content:**

We do not agree with the words on page 19, second paragraph on Remittance Addresses, in the sentence that includes "OPLOCs should check the remittance data on the invoice with the data in the CCR, and if that data on the invoice are not valid, it should be corrected." When the contract says "Pay as per invoice, or is silent on payment terms, the correct procedure for the Vendor Pay technician is to pay per remittance data contained in the DFAS Corporate Electronic Funds Transfer Feed (CEFT) from the Central Contractor Registration (CCR) File or from the CCR itself. When the invoice is erroneous, it should be rejected to the originator for correction.

**3. Responses to Recommendations:**

**Recommendation A.1.a.** We recommend that the Director, Defense Finance and Accounting Service Denver Center align access levels to the Integrated Accounts Payable System to correspond with how organizational responsibilities were segregated and eliminate unnecessary access.

**DFAS Management Comments.** Concur. The Agency is committed to eliminating unnecessary access. We have developed a standard vendor pay organization that incorporates standard separation of duties and systems access will be assigned accordingly.

**Estimated Completion Date.** May 31, 2000

**Recommendation A.1.b.** We recommend that the Director, Defense Finance and Accounting Service Denver Center develop a procedure and timeframe for removing access to the Integrated Accounts Payable System because of user inactivity.

Page 21

Clarified

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**DFAS Management Comments.** Concur. We have existing internal controls in place to ensure that access for personnel reassigned or terminated is immediately removed. In addition, we have established a new database that identifies who has IAPS access, monitors individual use of the access and identifies candidates for termination of access.

**Estimated Completion Date.** July 15, 2000.

**Recommendation A.1.c.** We recommend that the Director, Defense Finance and Accounting Service Denver Center direct that the practice of removing invoices from the Integrated Accounts Payable System be ceased unless supervisory approval is given and the reasons for removal are documented.

**DFAS Management Comments.** Partially concur. We require a log to be maintained for all improper invoices returned. This log provides visibility of the disposition of the invoices returned. We do not agree that supervisory approval for deletion of individual invoices is an effective control. It does not meet the objective of preventing the technicians from unilaterally deleting the records.

**Estimated Completion Date.** July 15, 2000.

**Recommendation A.1.d.** We recommend that the Director, Defense Finance and Accounting Service Denver Center reduce the number of individuals granted authority to update information in the Integrated Accounts Payable System at operating locations considering the organizational responsibilities of the users and the frequency of use.

**DFAS Management Comments.** Concur. See comments to A.1.a and A.1.b.

**Recommendation A.2.a.** Reduce the number of individuals granted authority to update information in the Integrated Accounts Payable system (IAPS) at the installation level considering the organizational responsibilities of users and the frequency of use.

**DFAS Management Comments.** Concur in principle. Recommendation should be addressed to the Air Force. DFAS will coordinate IAPS access for Air Force personnel with the Air Force.

**Recommendation A.2.b.** Remove access for the Rome Laboratories personnel to the Integrated Accounts Payable System to establish obligations.

**DFAS Management Comments.** Concur in principle. Recommendation should be addressed to the Air Force. DFAS will coordinate IAPS access for Air Force personnel with the Air Force.

**Recommendation A.3.** We recommend that the Director, DFAS Denver Center, in coordination with the Director, Air National Guard, develop controls to ensure that no one individual is allowed to enter contract information, as well as invoice and receiving report information and remittance addresses unless appropriate compensating controls are in place and operating. If not feasible, relocate the Vendor Payment workload to the operation locations and remove access level 06 from Air National Guard employees.

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**DFAS Management Comments.** Concur in principle. The recommendation should be addressed to the Air National Guard. DFAS will coordinate IAPS access for Air National Guard personnel with the Air National Guard or agree to relocate the workload to the OPLOCs to ensure proper internal control management.

**Recommendation B.1.** We recommend that the Under Secretary of Defense (Comptroller) amend the DoD Financial Management Regulation 7000.14-R, Volume 10, to fully comply with the Prompt Payment Act-Final Rule and standardize the rules for making properly supported miscellaneous payments.

**DFAS Management Comments.** Non-concur. Though OMB Circular A-125 was codified at 5 CFR Part 1315, until the Federal Acquisition Regulations (FAR) are changed, we cannot change the DoD Financial Management Regulation (FMR); therefore, we must operate under the Prompt Payment rules in the current versions of the FAR and DoD FMR.

**Estimated Completion Date.** Unknown.

**Recommendation B.2.a.** We recommend that the Director, Defense Finance and Accounting Service Denver Center rescind DFAS-DE 7010.2-R, "Commercial Transactions at Base Level," and develop a desktop guide to facilitate compliance with DoD Regulation 7000.14-R, Vol. 10.

**DFAS Management Comments.** Partially concur. DFAS-DE 7010.2-R will remain in place until the DoD FMR is updated following required FAR revisions. The Denver Center has issued a Standard Vendor Pay Guide to facilitate compliance with current regulations.

**Estimated Completion Date.** Unknown.

**Recommendation B.2.b.** We recommend that the Director, Defense Finance and Accounting Service Denver Center return all invoices to vendors and receiving reports to activities that do not meet requirements for payment.

**DFAS Management Comments.** Concur. The Denver Center Standard Vendor Pay Guide, April 2000, provides standard procedures for identifying and returning improper invoices and receiving reports for correction.

**Estimated Completion Date.** July 15, 2000.

**Recommendation B.2.c.** We recommend that the Director, Defense Finance and Accounting Service Denver Center develop stringent procedures for accepting invoice receipt dates. Procedures should ensure that the payment office could determine whether the designated billing office date-stamped an invoice.

**DFAS Management Comments.** Concur in principle. The FAR and DoD FMR provide guidance to the Designated Billing Offices and DFAS on date stamping invoices. Additional requirements must be promulgated by the FAR.

**Estimated Completion Date.** Unknown.



Final Report Reference	
Redirected	<p><b>Recommendation B.3.a.</b> Develop and implement a receiving document that provides the blocks necessary for the receiving activity to comply with the Federal Acquisition Regulation.</p> <p><b>DFAS Management Comments.</b> Concur in principle. Recommendation should be addressed to OUSD (A&amp;T). DFAS will coordinate with OUSD (A&amp;T) on any recommended improvements.</p>
Renumbered as Recommendation B.4.a.1.	<p><b>Recommendations B.3.b.(1).</b> Work with the Air Force contracting community to ensure that all contracting documents provide the information needed to make proper payments, including: (1) detailed identification of goods and service by contract line number.</p> <p><b>DFAS Management Comments.</b> Concur in principle. Recommendation should be addressed to the Air Force. DFAS will coordinate with the Air Force on any recommended improvements.</p>
Renumbered as Recommendation B.4.a.2.	<p><b>Recommendations B.3.b.(2).</b> Work with the Air Force contracting community to ensure that all contracting documents provide the information needed to make proper payments, including: (2) clearly identify invoicing requirements.</p> <p><b>DFAS Management Comments.</b> Concur in principle. Recommendation should be addressed to the Air Force. DFAS will coordinate with the Air Force on any recommended improvements.</p>
Renumbered as Recommendation B.4.a.3.	<p><b>Recommendations B.3.b.(3).</b> Work with the Air Force contracting community to ensure that all contracting documents provide the information needed to make proper payments, including: (3) accurate Data Universal Numbering System numbers and Contractor Activity Government Entity Codes.</p> <p><b>DFAS Management Comments.</b> Concur in principle. Recommendation should be addressed to the Air Force. DFAS will coordinate with the Air Force on any recommended improvements.</p>
Renumbered as Recommendation B.4.a.4.	<p><b>Recommendations B.3.b.(4).</b> Work with the Air Force contracting community to ensure that all contracting documents provide the information needed to make proper payments, including: (4) direction to avoid sending invoices directly to installations, unless the invoice requires certification.</p> <p><b>DFAS Management Comments.</b> Concur in principle. Recommendation should be addressed to the Air Force. DFAS will coordinate with the Air Force on any recommended improvements.</p>
Renumbered as Recommendation B.4.b.	<p><b>Recommendation B.3.c.</b> We recommend that the Director, Defense Finance and Accounting Service Denver Center, in conjunction with the Assistant Secretary of the Air Force (Financial Management and Comptroller), develop clear guidance on the use of Miscellaneous Obligations and Reimbursement Documents to ensure that they are used only when necessary.</p> <p><b>DFAS Management Comments.</b> Concur in principle. DFAS-DE 7010.2-R, Chapter 10, provides guidance on proper use and preparation of Miscellaneous Obligations Reimbursement Document (MORD). DFAS will work with the Air Force Financial Management office to ensure compliance with the guidance.</p>
	<p><b>Estimated Completion Date.</b> May 31, 2000</p>

**Recommendation C.1.a.(1).** We recommend that the Director, Defense Finance and Accounting Service Denver Center establish at each operating location that makes Vendor Payments using the Integrated Accounts Payable System a secure mailroom that ensures the proper receipt and date-stamping of all incoming Vendor Pay documents.

Renumbered as  
Recommendation  
C.1.a.

**DFAS Management Comments.** Concur in principle. DFAS Headquarters issued policy requiring all DFAS paying offices to establish positive document controls from receipt to payment. The standard organizational structure for all Denver Center operating locations requires a secure mailroom and requires all vendor pay documents to be received and date stamped in the mailroom. Incoming mail is dated stamped by electronic date stamp machines that provide a perforated date and office identification at all Denver Center operating locations. Mailroom controls, including security, are evaluated through operational reviews.

**Estimated Completion Date.** Complete

**Recommendation C.1.a.(2).** We recommend that the Director, Defense Finance and Accounting Service Denver Center establish at each operating location that makes vendor payments using the Integrated Accounts Payable System a document control section with an experienced staff capable of determining whether obligating documents, invoices, and receiving reports meet the requirements in 5 Code of Federal Regulations, Part 1315, "Prompt Payment: Final Rule," and the Federal Acquisition Regulation.

Renumbered as  
Recommendation  
C.1.b.

**DFAS Management Comments.** Concur. We fully concur with the need for an experienced staff in the Document Control Section. We are testing a new Vendor Pay organizational structure. The reorganized Document Control Section includes the requirement for making proper document determinations. The DoDIG will evaluate the new organizational structure in July 2000.

**Estimated Completion Date:** July 31, 2000.

**Recommendation C.1.a.(3).** We recommend that the Director, Defense Finance and Accounting Service Denver Center establish at each operating location that makes Vendor Payments using the Integrated Accounts Payable System a mechanism for tracking invoices, receiving reports, and obligating documents from receipt in the operating location to payment.

Renumbered as  
Recommendation  
C.1.c.

**DFAS Management Comments.** Non-concur. The IAPS provides a follow-up process for missing invoices and receiving reports. IAPS also provides reports for contractual obligations interfaced into IAPS. Inquiry level access is granted to the Air Force activities as an additional control that documents supporting vendor payments are processed accurately and timely. Additional control procedures would be time consuming with little value added. We must insure that all payment related documents are timely processed to use the existing IAPS capabilities.

**Recommendation C.1.b.** We recommend that the Director, Defense Finance and Accounting Service, Denver Center develop procedures to ensure that when documents are received and processed in the Integrated Accounts Payable System, they are properly secured in payment folders until the payments are made.

Renumbered as  
Recommendation  
C.2.

Final Report  
Reference

Renumbered as  
Recommendation  
C.3.

**DFAS Management Comments.** Concur. The Document Control Section is responsible for controlling all supporting documents in the contract folder until time of payment. We are testing a new Vendor Pay organizational structure. The test includes adding the responsibility for the voucher assembly process to the Document Control Section. The DoDIG will evaluate the new organizational structure in July 2000.

**Estimated Completion Date.** July 31, 2000.

**Recommendation C.1.c.** We recommend that the Director, Defense Finance and Accounting Service Denver Center issues desk procedures that tells exactly what constitutes proper obligating documents, invoices, and receiving reports and emphasize the importance of promptly returning improper documents to the source and entering only appropriate payment data.

**DFAS Management Comments.** Concur. The Denver Center issued a new Standard Vendor Pay Desktop Guide for Vendor Payment Processing on April 14, 2000. The new desktop guide provides a ready reference to the policy and procedures contained in DFAS-DE 7010.2-R, Federal Acquisition Regulation, or DOD 7000.14-R. In addition, all applicable vendor pay regulations are available for the employees.

**Estimated Completion Date.** Complete

Renumbered as  
Recommendation  
C.4.

**Recommendation C.1.d.** We recommend that the Director, Defense Finance and Accounting Service Denver Center develop a standard for resolving invoices that are not scheduled for payment and develop a standard business practice for obtaining missing documentation.

**DFAS Management Comments.** Concur. When DFAS receives valid invoices, we obtain and match the necessary supporting documentation and pay the entitlements. Invalid invoices are returned to the vendor for correction. To help this process, the IAPS currently produces a standard product, "Invoices Not Scheduled For Payment." We are evaluating several tools that sort this report by Site-ID. These tools improve the usefulness of the product to the Air Force. The best tool will be standardized across the network.

**Estimated Completion Date.** July 31, 2000.

Renumbered as  
Recommendation  
C.5.

**Recommendation C.1.e.** Review the grade structure and staffing levels within Vendor Payment offices to ensure that each location has individuals qualified to perform assigned task.

**DFAS Management Comments.** Concur in principle. Changing the grade structure and increasing staffing levels in Vendor Pay would not in itself ensure a qualified workforce. The DoD is making the transition from manual, paper-driven processes to electronic commerce. We are deploying the Defense Procurement Payment System (DPPS) which will replace the IAPS. At the same time, the agency is downsizing in order to meet limitations imposed by the DoD. The agency must continue to focus on advanced technology in systems application and electronic commerce to increase productivity, reduce errors and maintain internal controls.

**Estimated Completion Date.** DPPS implementation is scheduled to begin December 2000.

<p><b>Recommendation C.1.f.(1).</b> A standard review guide for accomplishing the 200 voucher review that gives consistent, useful results for assessing improvements in making vendor payments.</p> <p><b>DFAS Management Comments.</b> Concur. The 200 voucher review is an internal DFAS process to assess performance. The Denver Center established the review to identify deficiencies and improve the accuracy of supporting documentation and dates used in the IAPS. The Denver Center network uses the results of the reviews to determine requirements for refresher training provided by the operating locations. The Director, Denver Center also reviews the results and takes appropriate actions when negative trends are identified. The Denver Center is reissuing the guidance to clarify the standard procedure.</p> <p><b>Estimated Completion Date.</b> July 31, 2000.</p> <p><b>Recommendation C.1.f.(2).</b> An analysis of the root causes of duplicate and erroneous payments identified by the Predator application.</p> <p><b>DFAS Management Comments.</b> Concur. A detailed analysis is already conducted on all potentially duplicate payments identified by Predator. If the analysis confirms that a proposed payment transaction in the payment forecast file is a duplicate, the new transaction is voided. Vendor pay personnel are required to identify what caused the erroneous transaction and determine corrective actions. This information is captured in the Predator Verified Duplicate Report. Senior managers use the information to develop training requirements. We will validate compliance through the operational review program.</p> <p><b>Estimated Completion Date.</b> July 15, 2000.</p> <p><b>Recommendation C.1.g.</b> We recommend that the Director, Defense Finance and Accounting Service Denver Center report as a material weakness the ability of individuals to gain unauthorized access to the Integrated Accounts Payable System, the ability to remove invoices from the system without maintaining audit trails, and problems in supporting Vendor Payments as a material management control weakness.</p> <p><b>DFAS Management Comments.</b> Each of the three issues is addressed separately.</p> <p><b>IAPS Access.</b> Concur. We concur with reporting the ability of individuals to gain unauthorized access to IAPS as a material weakness pending the completion of a Systems Change Request (SCR) to correct the problem. The SCR has been submitted. The SCR will only allow IAPS users to have access to IAPS from a single workstation.</p> <p><b>Removing Invoices.</b> Non-concur. We non-concur with reporting the ability to remove invoices from IAPS as a material weakness. We already require logs to be maintained for all improper invoices and receiving reports returned as a control mechanism. Having IAPS track invoice and receiving report deletions is a desirable improvement. The Denver Center will develop an SCR to create a report that identifies invoices and receiving reports deleted from IAPS. The report will identify the deleted documents, the applicable user id, and the deletion date.</p>	<p>Final Report <u>Reference</u></p> <p>Renumbered as Recommendation C.6.a.</p> <p>Renumbered as Recommendation C.6.b.</p> <p>Renumbered as Recommendation C.7.</p>
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Supporting Payments. Non-concur. We non-concur with the portion of the recommendation that suggests reporting a material weakness for supporting vendor payments. The requirements for assuring adequate supporting documentation are in place by regulation. The real issue is improving compliance and enforcement by the Services and the DFAS during the payment process.

**Estimated Completion Dates.** June 30, 2000 for completing the IAPS Access SCR and July 31, 2000 for the IAPS Report SCR.

## **Audit Team Members**

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